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# MEDICARE: THE NEXT 30 YEARS

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## HEARING

BEFORE THE

## COMMITTEE ON FINANCE
## UNITED STATES SENATE

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

AUGUST 30, 1995

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# MEDICARE: THE NEXT 30 YEARS

WEDNESDAY, AUGUST 30, 1995

U.S. SENATE,
COMMITTEE ON FINANCE,
*Washington, DC.*

The hearing was convened, pursuant to notice, at 9:30 a.m., in room SD–215, Dirksen Senate Office Building, Hon. Bob Packwood (chairman of the committee) presiding.

Also present: Senators Roth, Chafee, and Nickles.

## OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON, CHAIRMAN, COMMITTEE ON FINANCE

The CHAIRMAN. The Committee will come to order please.

I told Mr. Perot earlier we all see that warning on our side view mirrors that says "objects are closer than they appear." And that is the way I hope the public will understand the possible bankruptcy of Medicare. It is closer than people think.

They may hear warnings about Social Security 10 or 15 or 20 or 25 years hence. We are talking about 7 years from now.

From 1992 onward, Social Security has paid out more money than it has taken in in payroll taxes. It had some other slight sources of income, it had bonds in its trust fund, and it had some interest from the bonds. But, from 1996 on, it will pay out more money than it has from all sources, including interest on the bonds and other miscellaneous small income.

So it will start cashing in its bonds, redeeming its bonds, eating up its principal. And by the year 2002, the bonds are gone, there is nothing in the trust fund, and the taxes are not even close at that stage—not even close—to paying Medicare benefits.

And every month, every year, we put off addressing the problem, it gets that much tougher and tougher to face.

So I asked Mr. Perot to testify today. His book, "Intensive Care," as with almost any of the charts he uses, is a simple, understandable primer on what the problem is. He states it very clearly and very cogently. And we are very much looking forward to having him testify today.

Senator Roth?

## OPENING STATEMENT OF HON. WILLIAM V. ROTH, JR., A U.S. SENATOR FROM DELAWARE

Senator ROTH. Thank you, Mr. Chairman.

I join you in welcoming Mr. Perot, Mr. Jake Hansen and Mr. Jonathan Karl to this hearing on the future of Medicare.

Mr. Perot, I congratulate you for writing "Intensive Care." At a time when heated rhetoric is clouding sound reason in the debate over how best to ensure the fiscal integrity of the Medicare program, your coming forward with a most informative book on this tough subject is indeed commendable.

Regrettably, many others are choosing instead to play on the fears of the elderly and disabled. And this positioning leads to a polarization that we cannot afford, not at a time when the choices that lie before us are as difficult as those we need to make, not when they are so essential to the well being and peace of mind of Americans.

We all know the problem. If left unchecked and unchanged, the Medicare program will go bankrupt. And the fiscal crisis facing Medicare is neither a Democratic nor a Republican problem; it is a problem affecting tens of millions of people and hundreds of billions of dollars.

Medicare provides essential health care coverage to a total of almost 36 million people, 32 million people aged 65 and older, 3.6 million disabled, and 77,000 with end-stage renal disease. These are facts, not politics. And the need to solve the crisis demands the best bipartisan effort we can make.

The task before this Committee, and before the Congress at large, is to make Medicare sustainable. To achieve this goal, they must work together. We must put aside the rhetoric of fear and cooperate on an agenda that puts people before politics.

Such an effort will demand active participation from the private sector, from individuals such as you, Mr. Perot, Mr. Hansen and Mr. Karl, civic corporate leaders, health care experts and concerned citizens.

Mr. Chairman, I am optimistic about what we can achieve if we work together and restructure the program correctly. I believe we can provide better service, while restraining Medicare's projected growth.

Like many other program of the Federal Government, Medicare needs to be restructured. As a health care delivery system, Medicare has barely changed in its 30 years of existence. Doctors, hospitals, others complain about Medicare's red tape. And, increasingly, the elderly are learning that it is harder to find health care providers willing to take on Medicare beneficiaries because of the program's administrative burdens.

Restructuring the program to reflect successful and proven changes in the private sector would update Medicare without undermining the quality of coverage or beneficiary satisfaction. And it would save a considerable amount of money.

These are my objectives. I understand the importance of Medicare's mission, and I believe we need to assure its permanence.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Roth.

Senator Chafee?

## OPENING STATEMENT OF HON. JOHN CHAFEE, A U.S. SENATOR FROM RHODE ISLAND

Senator CHAFEE. Thank you, Mr. Chairman.

I want to congratulate you for holding this hearing today. And I want to thank Mr. Perot for the interest he has taken in this subject, as evidenced by his book. And I want to thank the other witnesses who will be with us today.

We have really got a critical problem here, and it is going to take some bold steps to solve it. Regrettably, Democrats and some senior groups have opted simply to deny that this trust fund is in jeopardy. I do not know how they can do that in the face of his summary of the status of the Social Security and Medicare programs.

And here are some quotes from what this little booklet says, in which three current Cabinet Members of the present administration have signed this report. And what do they say? "The Medicare trust funds will be able to pay benefits for only about 7 years." That is not us, a bunch of Republicans, saying that. That is a report signed by three Cabinet Members plus the acting Administrator of Social Security. The trustees believe prompt, effective and decisive action is necessary.

Regarding Part B of the supplementary medical insurance trust fund, the trustees again say, "Prompt, effective and decisive action is necessary." Further on, the say, "The program outlays under Part B increased 53 percent in the last few years, and grew 19 percent faster than the economy as a whole."

Now we get to the public trustees, who were appointed by this administration. This is what they said. They use words like "critical" and "crisis." "The most critical issues, however, relate to the Medicare program. Both the hospital insurance trust fund and the supplementary medical insurance trust fund show alarming financial results. The HI trust fund continues to be severely out of financial balance. It is projected to be exhausted in 7 years."

These are quotes. "The Medicare program is clearly unsustainable in its present form. We strongly recommend that the crisis . . ." These are their words, not ours, ". . . presented by the financial condition of the Medicare trust funds be urgently addressed on a comprehensive basis."

In the face of all this, the Democrats regrettably show no interest whatsoever in trying to rescue the fund. Indeed, in my home State, the other three members of the Congressional delegation go to senior centers and, instead of addressing the problem, criticize those of us who are trying to solve it. They make ridiculous statements like, "Our job as representatives is to keep Medicare, to fight for it."

Then, when they are asked what they would do about the situation, they say they have no solutions. What a sorry state of affairs.

Mr. Chairman, in another effort to divert attention from the real issue, they contend that the trustees have sounded alarms about Medicare for many years, and only now do we take it up. And they say we are doing this for political reasons. Well why in the world would we take this up—a sensitive subject that is hardly a political winner—for political reasons? I have never known anybody dealing with Medicare, trying to change it any fashion, at least to enact some savings, who gets political benefits out of it.

It may be expedient for the Democrats to ignore Medicare's problems, and to score political points by demonizing Republican reform efforts. Inaction would be a far worse course.

Mr. Chairman, we are going to hear from some of those who are thinking about the future, including Mr. Perot and others who will be testifying today. They are the ones who are going to lose from maintaining the current status quo.

I understand that one of the witnesses is going to say that nearly twice as many young adults believe in the existence of UFO's as believe that Social Security will exist by the time they retire. Well that is a sorry state of affairs, I must say.

So, Mr. Chairman, I am glad that we are undertaking this effort. This is something for the benefit of our nation, for the benefit of 37 million current people and others who will come after them. And I congratulate you for what you are doing, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Chafee.

Mr. Perot, the floor is yours.

**STATEMENT OF ROSS PEROT, THE PEROT GROUP, DALLAS, TX, ACCOMPANIED BY TOM ONEROCKER, REGIONAL DIRECTOR, UNITED WE STAND AMERICA, DALLAS, TX**

Mr. PEROT. Thank you, Mr. Chairman.

If we put all the figures relating to Social Security, Medicare and Medicaid on the instrument panel of an aircraft, and looked at them rationally, as you are forced to do when you are flying, we would see that when Medicare was created in 1965, it was forecasted to cost this country $9 billion in 1990. In fact, it cost $106 billion. There goes a red light.

Medicaid was forecasted in 1965 to cost this country $1 billion in 1990. It cost $91.3 billion.

The cost of these two programs today in 1995 is over $250 billion a year.

In a recent story in the New York Times, the cost of Medicare and Medicaid in the year 2030 was forecasted to be $3.9 trillion, almost twice the cost of running our whole country today. More red lights.

Then, in that same story in the New York Times, the cost of Social Security in the year 2050 was forecasted to be $5.5 trillion.

Then you look at your supporting estimates and say what is happening here. You would see that in 1950 we had 16 people at work for everybody receiving Social Security. Today that number is down to a little over 3. It is headed down to 2 in the year 2030.

So the tax base and the people paying taxes is dropping. And the number of elderly people is rising, thanks to modern health care technology and the focus on personal fitness.

Right now, the people who are retired are people that we all revere and adore because they took us through the Depression, they won World War II, they gave us the best years in this country's history after the war in the 1950's and 1960's. They have really done a lot to build this country, and they are our parents and grandparents.

On the other side, they love the young people even more than the young people love them.

As I travel around the country, visiting with large groups of people, a lot of them are retired people. They will do anything to make the 21st century the best in this country's history—anything. They

will go sleep in the snow to make that happen. Now we are not asking that. We are not proposing that.

Senator, to my knowledge, there are no proposals that cut Medicare. To me, if something costs $1, and I cut it to 50 cents, that is a cut. On the other hand, if it costs $1, should have cost 50 cents, is supposed to go to $2, and we say we cannot go beyond $1.50, that is not a cut.

The CHAIRMAN. Only in Washington would we call that a cut. That is correct.

Mr. PEROT. That is a forecasted cut. So let us set the record straight.

But the basic forces are in place. The old people, the elderly, want to make the 21st century the best in our country's history for their children and grandchildren.

Dr. Kotlikoff of Boston University, a leading authority on generational accounting, whose work is considered so good that it is published in the President's annual budget, forecasted in the 1995 budget that the next generation to be born—a little child born tonight—will pay an 82 percent tax rate. His latest figures had it up to 84 percent. There goes the American dream, no its, no ands, no buts, if we let that happen.

So now we have looked at the complete instrument panel, and there is only one thing to do if you are flying, and that is eject quickly because this plane is going down.

Then the question is, how did we get into this problem? Why do we have a consistent pattern in our country of creating social programs that are conceived with the most noble intentions, and then fail or produce only mediocre success? And there is a consistent pattern here.

I would urge this Committee, since most of these programs have to come through here, to say wait a minute, we have got a big picture problem. We have been doing welfare for years; it is a mess. We have been doing Social Security for years; it is a mess. We have been doing Medicare and Medicaid; they are a mess. Is there a pattern here? I suggest that there is.

Interestingly enough, as the programs get older, they become less and less effective instead of more and more effective. I could see getting off to a stumbling start, and then it getting better every year. That is not the way it works.

The fundamental problem is that our legislative process considers only one issue at a time. We look on each issue as an island. Right now, we are focused on Medicare. We cannot just focus on Medicare and solve the problem, but that is the way we are focused now. And that is the way the system works.

It is a piece in a large, complex puzzle, whose pieces are interconnected and must be analyzed as part of the entire problem. Individual pieces of the puzzle, like Medicare, are very complex. For example, creating and excellent Medicare program is far more complex than building a space shuttle. And I will debate that with anybody, anywhere, anytime.

If you question that, just get one of these tiny little pills that is so small you could not see it if I were holding it in my hand. It took 15 years to develop, hundreds of millions of dollars, and cures

some problem that used to be fatal. That is just one little piece of the puzzle.

If you think running a military operation is complex, contrast that with successfully executing everything that happens in every hospital all day, every day, 24 hours a day, 7 days a week across this country, and Desert Storm starts to look like childhood Monopoly.

That is how complex this system is. Tiny parts of this system must function effectively, or the whole system can fail.

To use my space shuttle analogy, there is nothing smaller on a space shuttle than an integrated circuit. If the integrated circuit goes, that could bring the whole shuttle down. It is a tiny little thing that you might even have to put under a microscope to see.

Complex systems of this type must be carefully engineered by experts. You in Washington say wait a minute. You mean you are going to bring people in that understand health care to create the health care system? Sorry folks, if you want it to work, you had better.

Now I am here today to tell you that we want to build a skyscraper in New York City that is bigger than the World Trade Center. I would like for all of you to contribute to it. It has got to be the most beautiful thing you have ever seen in the world. Your first question would be, Ross, do you have a blueprint? No, it is a concept.

So you say come back with the detailed plan, right? Well, we do not like to do that when we pass legislation. We do not want the detailed plan. We do not want the detailed cost. We do not want the details that it takes to make complex things work.

We have to bring in the most creative minds we can find when we are trying to create a complex system like a successful Medicare system. And then we hit another brick wall because we have this sense that anybody that understands medicine would have a conflict of interest.

So we bring in philosophers, economists, beekeepers, symphony conductors and people like that to put together a health care system. And then we wonder why it did not work.

So you say, Ross, are you saying we should only go to Mayo Clinic, Massachusetts General, Cal Tech, Cleveland Clinic and handful of other great institutions? I say if you only got those people—and they are incredible—but if you only got those people, and did not have country doctors. They do not do country medicine. They do not live in towns of 300 people, and so forth. They do not understand going 50 miles to the nearest hospital.

So you say, do you mean one shoe will not fit every foot? Any cobbler knows that is true, right? We pass health systems and social programs assuming that everybody has the same size foot, and we wonder why their feet hurt.

This is our problem. We have got to bring in the people who know it. You say, what about conflict of interest? Well, I could claim that my architect has a conflict of interest if I let him draw the plans for a building. Or the carpenter has a conflict of interest, or the plumber does. Therefore, I am only going to have people build my building who know nothing about it. And then I am going to wonder why it fell down and leaked before it fell.

This is our problem. We need to bring in very creative and unconventional thinkers. I have been around creating complex systems all my life. And, inevitably, the best ideas come from young, talented people who know their business. Here I am talking about young doctors, young nurses, young medical technicians.

You say you are going to put nurses in here? You bet. They know a piece of that system that nobody else knows.

Well, what about the administrators? You get them in there too because they are living with all this paperwork now, and they will have ten thousand ideas.

What about Government employees who oversee Medicare? Put them in the thick of it. These people all have migraine headaches. For years they have known what to do, but could not do it. Put them in the middle of it.

Take these talented young people—now I am back to my unconventional thinkers—who are too young to live inside the box, and have them keep looking at your blueprint. Every good idea that really hit a home run in my business never came from people who should have had it, and certainly never came from me. They always came from people too young and too inexperienced to have it.

But, because their thinking was unconventional, they would have an idea. The old conventional thinkers would look at it and say, wow, that is great. We would do it, and the rest was history.

Now this is unthinkable. Now I am proposing creating a model. We have something we are all excited about. We pilot test it. Mr. Ross, we do not ever pilot test social programs. We go from great idea to legislation, to massive function, to failure. That is why.

Think how simple a car is, compared to Medicare. You would never think about mass producing a new car without putting it on the test track and running it for thousands of miles. Then you have found all the problems you did not think would exist. Then you can fix those problems and when you mass produce it, you have a car that the owner will like.

In our new Medicare program, after developing our detailed plan, after putting costs on that detailed plan, we should then pilot it.

We will have a very different plan in a rural part of the country than we have in New York City. I doubt if anybody would even want to raise that as a serious question. But if they do, is it not fascinating that we have one plan fits all now, and it does not work?

Full-scale pilot models can then be built and tested. Let us assume we were testing a new airplane. Here are the steps we go through—and it is far simpler than Medicare. First, you do it on paper. Second, before you even build it, you do a model and put it in a wind tunnel. All too often, it will not fly, even though geniuses created it. Then you fix the wings, the tail and whatever, and it flies.

Then you build one. You say, all right, let us go fly it. No, you do not fly it. You play with the instruments for several days. You wiggle the wings and tail for several days. You turn it to see if the nose wheel turns for several days. Then, finally, you start one engine with your fingers crossed. Then you start another engine with your fingers crossed. Then what do you do? You taxi. You would not think of taking off yet. Then when you think maybe everything

will work, you get the most experienced test pilot you can find, who likes to live on the edge, and he or she makes the first flight. That is the way you make things work.

Now let us take Medicare. Medicare would be like an old airplane, sitting over there rusting, the tires are down, the wings are sagging, and so on and so forth. And the conventional way of doing this is to say we can get it at a bargain. Nobody wants it. And it is obvious we have to replace the tires. So we replace the tires and try to fly it. Well, we could not.

Then we say, well, the engine is bad, so we fix the engine and try it. We could not, because the tail would not work. Then we fix the tail, but none of the instruments work. Forrest Gump would not do that, right?

The point is that there is a way to do complex systems, and I think if we go through that engineering process in creating a new health care system, step one is that you have to have the top people in this field put it together for you.

You have to have the detailed plan. You have got to have the costs. You have to pilot test it to see if it works as planned and costs what you thought it would. You will make a thousand improvements during the pilot test. Please do not ever require every change to be made through legislation. Let people make changes in a dynamic way.

What if Henry Ford's care had been frozen by legislation? We would still be driving a Model T. By the way, that is what happened to Medicare. We could not move it forward in a dynamic way.

Then finally, when you know the real costs and real benefits, you can start implementing it nationwide.

And last, and most important, keep it dynamic. Let people have good ideas. Let those ideas be implemented on a day-to-day basis. Do not require legislation because that delays it and possibly eliminates the opportunity to do it.

A fundamental rule is that systems that cannot change will die. So please keep it dynamic.

Just think, what if we were on Alexander Bell's original telephone? We would not be calling around the world by direct dial, right? Complex systems must be dynamic and change.

If Medicare is only one piece of the complex puzzle, what are some of the others? Here is one we do not think much about—the stability of the dollar bill. How much your Medicare dollar will buy is a direct function of what the dollar is worth.

And I get up every morning and just marvel at all these folks who think that the cheaper we make the dollar, the more competitive we will be. My response is, let us just run it down to zero and take over everything. Then the dollar would not be worth anything. When I was a young man, $1 would buy 360 Japanese yen. It is somewhere around 90 now, it has surged a little bit. So it is about one-fourth of what it was when I was a young man.

What your dollar will buy is far more important than how many dollars you have. And, in running the dollar down, we run the price of all these social programs up.

The next piece that we have to consider is the total overall cost of Government spending because, like it of not, we cannot spend

beyond our means. And we will be wrecking our country and our children's future if we do.

Then we have to come down, as we consider Medicare, and say what are our total tax revenues? Is it really thinkable that these giant numbers I gave you could materialize? We ran this great country for $100 billion a year when John Kennedy was President. Think of that. Now we are spending 15 to 16 times as much, and we are not 15 or 16 times better off. As a matter of fact, wages are flat. Wages in manufacturing are down for four out of five working Americans.

There is finally one other. I said the total tax revenues, and this is the most important one of all. If we are going to try to continue to try to do these things to help the American people, we have got to have a strong and stable job base, with the average American working at a good-paying job. Because people who do not have a job do not pay taxes. And people who have a minimum wage job do not pay much in taxes. And if you do not have taxes, you cannot afford these programs.

So right now we go from noble concept, to rigid legislation, to massive funding, to no testing, to mass production, to giant cost overruns, to mediocre performance. That is the way the system works, and that does not benefit our people.

I think you have a unique opportunity now to do this one right, and set a new standard for how you put in complex programs for the American people.

If you will bear with me for a minute, I will go through a few charts, and then we will just visit with one another. I have a lot of detail here today, but you have heard it from 40 some-odd witnesses. Your comments about my book were interesting because we have used many of the experts that have testified before your Committee as sources. And you have certainly been given a lot of very high quality information.

In order to make it easier for you to see the charts, just turn right inside the front cover. This is the one that sort of brings it all into perspective. This shows the steady increase in life expectancy. We have more elderly people now, by far, than we used to have. And that trend will continue to go up.

Now, if you will, go to page 54. This chart shows the projected growth of Medicare spending. Now that is runaway growth, as you can see. And that just gets you to 2005. Then as it goes on out, because of the aging population and runaway costs, and the problem gets worse.

On page 59, chart 3, we show the causes of the projected growth in Medicare spending for the next 5 years. And that is an interesting chart. It just shows where the money goes. Increased services and use of technology is the biggest one. Price inflation is substantial, and the caseload increase is the smallest.

On page 77, chart 4—chart 4 is for Tom over here so C-Span can see it—we show the projected balance of Medicare Part A trust fund. Now as this goes down to zero, and we start losing money, keep in mind that the Government has borrowed all this money. They have a Federal note, and the Government typically rolls the interest forward, does not pay the interest, and just borrows more money.

But when they run out of money, the Government is going to have to pay these notes off, and that is going to create a really interesting phenomena in the bond market, as the Government has to go out and refinance a lot of this debt that it has been borrowing internally from the Social Security trust fund and other trust funds like this.

The Government is going to have to pay that money off, and go back out and borrow it. That could trigger off an increase in interest rates. Over 70 percent of our National debt is financed short term. Only in America would you do that. Nobody would finance the house mortgage short-term. We have got this giant debt financed 70 percent short term. Every time the interest rates go up 1 percent, it is a $30 some odd billion increase in the deficit.

Let us go to page 86. This shows the projected Part A payroll tax needed to meet projected spending. You can see that, in order to keep Medicare Part A the way it is now, we have to just keep raising the payroll tax. As all of you know, it is a lot higher than anybody ever thought it would be now.

Going on now to page 33, chart 6, we show the number of workers per Medicare beneficiary. And it shows that it is dropping, dropping, dropping. This means that the few people still at work, the 2.1 workers at work in 2035 are going to have to support a huge aged population. That will create an interesting phenomena.

Senator CHAFEE. Mr. Perot, could we just look at that chart on page 86 again?

Mr. PEROT. Yes, sir.

Senator CHAFEE. You say that projected Part A payroll tax. Now that is the HI tax, right?

Mr. PEROT. Yes, sir.

Senator CHAFEE. Part A?

Mr. PEROT. Yes, sir.

Senator CHAFEE. Which is currently 1.45.

Mr. PEROT. Right.

Senator CHAFEE. But it is just——

The CHAIRMAN. One point 45 each—employer and employee.

Senator CHAFEE. Oh, I see. These are the combinations of the employer and employee?

Mr. PEROT. Yes, sir.

Senator CHAFEE. So it is currently 2.9. And you say that in 10 years——

Mr. PEROT. This is the hospital insurance trustees' report. They say. I do not create these; I just take them from these different groups.

Senator CHAFEE. Oh, I see. It is a whale of a jump.

Mr. PEROT. Oh, it is. Everywhere you look, it is a whale of a jump.

Let us go back to the Depression. I was a child in the Depression. Times were tough. Everywhere you looked it was bad. But the mood in the country was optimistic. And the song from the musical Annie summed it up—"Tomorrow, tomorrow, I will love you tomorrow." You are only a day away because today was bad, but you knew it was going to get better tomorrow because you were in the United States.

It breaks my heart that our young people do not feel that way today because they are studying all this and understand what the burden is that we are placing on them. Once the parents and grandparents understand it, and once the young people understand it, there will be a meltdown like we have never seen in terms of any hesitancy to face it and fix it.

The young people care about their parents and grandparents, and want to make sure these programs are protected. The old people who are the recipients of the program would do anything to make sure that the young people can live their dreams as they grow up and mature in our country.

So I think it is an interesting coming together of two forces that are cohesive forces, and not opposing forces.

Senator ROTH. Could I ask you a question too on this?

Mr. PEROT. Yes, sir.

Senator ROTH. This chart on page 86 points out the additional revenue that would be needed for projected spending. Is it not a fact, Mr. Perot, that no matter how much you raise revenue, that is not going to bring about the kind of reform we need in the program?

Mr. PEROT. No, sir. You have to have discipline on spending too. You cannot just go out and party.

Senator ROTH. We have already raised taxes twice to salvage this program.

Mr. PEROT. Exactly. No, that is not the answer.

Senator ROTH. That is not the answer, is it?

Mr. PEROT. No. We have got to redo the program. That is the reason I spent so much time on engineering. People have lived in this program since 1965. The ideas to make it better are all over the place. What we have to do is bring them together, put them into a plan, cost it, pilot test it, debug it, optimize it, keep it dynamic, and I think you will be well pleased with the results.

We have tried Government over-regulation since the 1930's. And we thought it was going to solve problems. Instead, it creates problems because people can always figure out a way to work around it. We have to create market incentives.

For example, the elderly now have no incentive at all to look at their Medicare bills. If you are paying for your doctor's bill, you always look at it. If somebody fixes your car, you look at the bill. They fix your body you do not, if you are retired. Interesting. We have got to have the ultimate audit force. Say some 30 odd million people receive Medicare. That is a lot of auditors, right? If everybody would audit his or her Medicare bill, you would see tremendous discipline there because there is a lot of waste.

The reason for that waste—and I say it is just human nature—is that if nobody is watching the hen house, the fox will get in. So let us have the people who benefit from Medicare become our auditors. There have been several creative programs suggested on that.

Let me run to page 104 and I am through with graphs. It shows the amount received each year by Medicare Part B recipients. And it really ties in with what you are saying. That started out in 1980, when a typical recipient got $390. Today, going out to the year 2004, they will be getting $4,515. Now the recipients do not get it; the people who treat them get it. But they spend that much a year.

For example, the fellow who ran for office in Russia who promised everybody in Russia a free vacation. Let us assume he had gotten in. Can you imagine how much Russia would be spending on vacations now? Everybody would want to go everywhere because the Government paid for it.

We have got to have discipline on spending. And there is no way around it. The average citizen understands it. We turn great, productive people into wards of the State through these social programs without ever intending to.

And I will close with this thought. We are making the elderly wards of the State. The first wards of the State we ever created in our country were the American Indians. And that has been a massive failure. They were hunters, warriors, empire builders. They walked across what are now the Aleutian Islands. They survived Alaska, when they should have frozen there. They made it down through Canada, and they should have frozen there. They made it though the desert where they should have died from lack of water. They went all the way down to Central America and built empires. Only when we put them on the reservation and held them still, and did not let them be productive people, did we destroy the great spirit of an entire culture.

Then, with the best and most noble of intentions, we passed welfare, we passed public housing, we put millions of people on another reservation. We called it public housing; we called it welfare. There was no incentive to ever get into the ring again and compete, be productive, regain self esteem, and look after themselves.

That is being discussed and debated now because, after three generations, there are children who were born and grew up expecting to be taken care of by the Federal Government. That is hardly what our society is all about.

This is an interesting time for our country. I commend you for having the courage to face this and grab the bull by the horns, as we say in Texas. The exciting thing is, if the American people understand it. The only reason we wrote this book was to try to make sure that every citizen would fully understand Medicare.

If you want to have fun with people in their 40's and 50's, ask them what is Medicare. Well, it is health program for the aged. What is the Medicare A? You will see most of them go blank. What is Medicare B? You will see them go blank. How is Medicare A paid for? Almost 100 percent blank. How is Medicare B paid for? Almost 100 percent blank. If you go much beyond that, you are going to get 100 percent I do not know.

Step one in our free society is for the people to understand the issue. Step two is for the people to understand the magnitude of the issue.

I close with this thought. If we had a patient coming into the critical care unit, intensive care unit, in a major hospital, who was bleeding arterially and had three broken fingers, we would expect the doctors to stop the arterial bleeding. Later on, when they had time, they could work on the broken fingers.

We have a process here. And it is not the people, it is the process. This is based on 4 years of observation on my part. We have got great people up here who have a process that would cause them to go to work on the fingers, and not the arterial bleeding.

I commend you for going directly to the serious problems. I think they are all interrelated, and I urge you to keep up your good work because the American people will benefit enormously if you do.

The CHAIRMAN. You mentioned Native Americans. About 8 or 9 years ago, there was a cartoon in The New Yorker, which shows a Native American walking behind Yitzak Shamir, who was then the Prime Minister of Israel. And he says, "Let me tell you something, Yitzak, about the results of trading land for peace." I thought it was a very perceptive cartoon.

You have touched on two major things today. One, Medicare is bankrupt.

Mr. PEROT. Right.

The CHAIRMAN. Two, this country is fiscally mortally in danger. They are two separate subjects, although Medicare is one of the things that is driving the second.

I talked with you earlier about some figures, and I will mention some additional ones today. We have 410 entitlement programs in this country. By entitlement programs I simply mean a program that pays out money, even if we never change the law. Social Security is the one we know best, but we have 410 of them. The bottom 400 of them cost, plus or minus, about $50 billion a year. And that is not insignificant. But in deficits of $200 to $300 billion, if we got rid of all 400, we would have only marginally touched on our deficit problem.

The big four entitlement programs however, are Medicare, Medicaid, Social Security and other Government retirement, military or civilian. Those four, plus interest, are $900 billion a year. If we just scratch around the surface and the edges of the major ones, we are not going to solve the budget program.

One other set of statistics, involving just those four—Medicare, Medicaid, Social Security, other Government retirement, military or civilian, plus interest—in 1964, those four, plus interest, were 23 percent of all the money the Federal Government spent. In 1974, those four, plus interest, were 36 percent of all the money we spent. In 1984, 47 percent. In 1994, 56 percent. In 2004, it will be 69 percent, if we do not make any changes in the law. Of all the money we spend, all the money the Federal Government spends will go for those four programs, plus interest.

Now we are faced with one of two alternatives. There may be three, but the third one never works. We can raise taxes. I do not suggest that, and we have never succeeded in narrowing the deficit when we raised taxes anyway. We just spend the money.

Two, we can cut—literally butcher—all other kinds of programs to save these four. We can get rid of the Coast Guard, get rid of the Environmental Protection Agency, the Forest Service, get rid of all kinds of things, just eliminate them in the hopes of saving these four. In the process, we would get rid of all kinds of legitimate Government programs people would support. Or we can attempt to somehow slow the growth of these programs.

And Mr. Perot put his finger on it. No one is talking about a spending cut in these programs. Medicare goes up about 10 percent a year now. The President has said that we need to slow that growth to about 7 percent; the Republicans have been talking

roughly about 6.3 or 6.4 percent. We are not far off in our differences of slowing the increase.

But, if we do not, then the second part that Mr. Perot talked about today, the fiscal train wreck—I am not talking about the Government shutting down on October 1—is coming, and there will be a generational revolt. He showed you the figures on what the payroll tax would be to support Medicare in just a few years.

I attempted to get, but I have not gotten, a formal estimate on Social Security and Medicare taxes in the year 2025, combined employer-employee, assuming no change of law. And I estimate someplace between 21 and 23 percent combined payroll tax to support the programs, if there is no change in law.

Now if you are self-employed, you pay both ends of that. You will pay 21, 22 or 23 percent right off the top. That is what we are facing, and that is where the generational revolt will come, when a lot of grandkids will say to their grandfathers, granddad, I love you and I want to support you but, as between the two, you get my love.

Would you touch very briefly, because you devote a chapter to it in your book, Mr. Perot, on medical savings accounts?

Mr. PEROT. First let me mention one thing. The Office of Management and Budget recently came up with a projected deficit for the year 2030. This is the 1-year increase in the debt. The Office of Management and Budget projects that it will be $4.1 trillion. That is a massive number projected by our Government. Again, not only would you eject if that came up on your instrument panel, you would probably wonder why you ever flew.

We know that now it is totally irresponsible just to let the meter run, or the party continue, and let that occur.

Now back to the medical savings account. This has been shown in small pilot tests to have a favorable effect, in that it encourages the individual to be the auditor, the policeman, the guardian, and to manage the individual's own health care problem, rather than just having forms filled out and sent to the Government. Those ideas certainly deserve careful consideration and pilot testing.

Again, will there be unanticipated adverse side effects? Yes. One thing we have to be very careful about. There is an interesting lesson in yesterday's New York Times. New York State decided to let HMO's do a lot of the Medicaid work, and now they have a problem.

Would it not have been neat to say, that is an interesting idea, let us experiment with it, see what the problem is, see if it is solvable and can be turned back into the opportunity we think is there, rather than creating a huge problem and then having to back off?

For example, how do you get the individual to be the auditor? One proposal is that the individual gets 10 percent of whatever he or she saves. And that is an interesting idea. I would love to have 10 or 15 people who are really bright and creative spend a week on that, and they will come back with 30 different ways to do it. Then I would say let us take the top five or six, pilot those, find out what really works in terms of auditing.

The medical savings account though, if you manage your money well, becomes your money. It goes into your account. And those things seem to work pretty well. They have been tried by some

companies, and have produced interesting savings in health care because people then get interested in the money. It is another way to get people to audit.

The CHAIRMAN. Now we have had what you might call a pilot program in Oregon. We have seven competing managed care companies selling Medicare insurance. On a volunteer basis, over 50 percent of the Portland Metropolitan Area has gone into managed care on Medicare.

We have just started to move into the rural areas in the last year and a half. There is about a 25 percent sign up in the rural areas in just a year and a half. And people are doing it voluntarily.

Each of these companies sells a slightly different policy. They all have to sell the basic Medicare benefits. They are not allowed to go to a medical savings account and say, here, you pay the first $2,000 or $3,000 and we will insure you above that.

But it is interesting, as you look at the different companies, the kinds of things they offer and do not. One of them does not offer prescription drugs. To somebody who is eligible for Medicare, and is reasonably healthy, and does not need prescription drugs, this company offers something else and they buy that. For somebody who thinks they need prescription drugs, they will buy the policy that has the best coverage on prescription drugs.

But it is a form of experiment, with different people choosing different policies to fit their needs. And in every case, these managed care companies are getting people to sign up. They take over all the paperwork. You do not have to worry about it.

The one thing they would like to be able to do—and I hope the law will allow it—is to allow a medical savings account, or a catastrophic policy, and let somebody say they will pay the first couple of thousand dollars.

Mr. PEROT. Yes. And they are having to compete to get the business.

The CHAIRMAN. Oh yes, you bet they are.

Mr. PEROT. This is very important because then the HMO with the best idea gets the business. If somebody were to ask me what is my principal concern about HMO's, it is the concentration of power, the giant salaries. That does not look good to me. But let us look at what kind of job they can do. That is the real test.

And I have a really large concern I want to express here. They tend to turn the doctor into just an employee. I think the day we do that, we will have really damaged health care as we have known it in our country. The doctor needs to have a bigger role in health care policy.

In checking with a number of doctors—and this is not a scientific check, but a check that is in depth enough that I am beginning to see a pattern—genius doctors, who I would not think did any charity work because the Emirs and what have you are flying into this country to get their treatment, do 20 to 30 percent of their practice without charging a penny, because of the Hippocratic Oath.

Now that is at the very top of the medical pole. People are doing heart bypasses and what have you, and getting paid nothing. Anytime a group has a high trust factor, it is important to analyze why. Patients trust doctors. People do not know who the hospital order is. They do not know who the guy is who is getting the $13

million salary, but they trust that doctor. It is important that that doctor be the principal caregiver in the system.

I am not saying that doctors are perfect. But in an imperfect world, you look for the people who have earned the trust and respect. It is very important that, in any future system, the doctors play a leadership role, and not just be lowered to bidding their services to an HMO where, in some cases, the less care they give, the more their stock is worth and the more salary and bonuses they can pay themselves. That is not what medicine is all about.

The CHAIRMAN. Interestingly, three of these HMO's are hospital-based. They are the insurance company, the medical provider and the providing physicians. A fourth one is Kaiser.

Mr. PEROT. See, that is a different wrinkle. That should be encouraged. Either it will survive and grow, or it will die, based on its market effectiveness.

The CHAIRMAN. What they basically said is we are going to cut out the insurance company; we are going to be the insurer. And they are. They are responsible. If they lose money they lose money, but they are hospital-based.

We have had Kaiser since World War II and the shipyard days. Of course, Kaiser has been a health maintenance organization all along. It has its own doctors. You pay your fee to Kaiser and they are the insurer and the provider. And it has worked out very well.

Mr. PEROT. There are all kinds of options, and if we can create health systems that encourage people to use their own brains and wits, and go out and shop and buy the shoe that fits their medical foot, that is probably the shrewdest and most cost-effective thing we could do.

Right now we are treating them like welfare recipients. We are saying, you are not smart enough to look after yourself, we will pay for everything. Just go down and get treated, come home and we will take care of you. That produces people who lose their self esteem, who lose their survival skills, whose brains do not have to work as hard. If you have ever talked to any neurosurgeon, he will tell you that aerobics of the mind are as important as aerobics of the body. So it is important to have them do it.

The CHAIRMAN. One of the things I did during the recess was that I went to New York and went through some of their teaching hospitals. They are worried about significant cuts in medical research.

You mentioned the problem with Medicaid in New York. To my mind, one of the problems that happened is a good problem. New York State started to put Medicaid out for bid to managed care. A lot of managed care companies moved into it. Previously, almost all Medicaid was delivered by the New York City municipal-owned hospitals.

As managed care got into it, they started using hospitals other than the municipal-owned hospitals, and the municipal hospitals saw their revenues dropping because they were being pushed by competition.

That is one of their problems, and I am not sure it is a bad problem. But it is an example of what other hospitals are saying. We can do this, and we will contract to do it, and it seems to be working.

We will take Senator Chafee next, then Senator Roth and Senator Nickles.

Senator CHAFEE. Thank you, Mr. Chairman.

I just wanted to ask, in that illustration of Oregon you gave, with the six insurance companies, was that on Medicare?

The CHAIRMAN. That is on Medicare.

Senator CHAFEE. Under the risk contract situation—in other words, the HMO's?

The CHAIRMAN. It was seven actually, although three of them were hospital-based, but they are all HMO's. It is Medicare; non-Medicare were even higher. I can give you an example, John, of how dramatic it is. Blue Cross-Blue Shield, which is a normal insurance carrier, had zero managed care participants in 1984; they expect to be in excess of 90 percent managed care by 1998.

Senator CHAFEE. Mr. Perot, it seems to me that what you are suggesting, when you say that each shoe does not fit each foot, is that we should try different models out there, try different approaches. It may well be that the system for a small community of 3,000 is different than we are going to use in a city of 200,000.

One of the things we always worry about—maybe it is wrong—is the so-called risk selection in these different programs. Clearly, there are certain people over 65 who are in darn good health, and are going to remain in good health for the next 10 years. It is their lifestyle, their heredity and a series of factors.

The worry is that, if you set up these competing insurance companies that can take them, with all kinds of incentives, including reduced fees or a cash return of some type, all the healthy people will flow that direction, leaving the Federal Government stuck with the others.

Have you given any thought to that?

Mr. PEROT. I would look at them, smile very nicely and say, fellows, if you want to participate in this, you are going to have to take the bitter with the sweet. You cannot be selective. And they are very fascinated in getting the billions that would come from the Federal Government, right?

Keep in mind that, once you go back to the private sector, self-interest is going to be the primary driving force. Certainly they would like to have only absolutely healthy over 65's that never go to the hospital. If they can get away with that, they will.

It is kind of like negotiating with the Japanese. If they can outtrade us, they will. If you smile nicely and say we will take the same deal we gave you, they cannot really argue with it, right?

But the point is, if they can out-negotiate the Government, they will. Again I would like to suggest that you put a panel somewhere of people who grew up negotiating to handle Government negotiations because, as a country, we have lost our negotiating skill. We no longer barter; we go down to Sears and we pay the sticker price, whatever is marked.

There are people, principally in rural areas, that still know how to horse trade. Get some of these folks up here. Just have them smile at these big insurance companies and say, fellows, I understand why you want to do that, but we just cannot do it.

They are not going to turn their backs on all that money. It means that if they cannot participate in Medicare and Medicaid

unless they can only have the well, they are going to come back and have a plan for everybody, which is what you want.

Now there will be a little fret about this, but I think you just have to be nice to them, and never do anything but smile and encourage them. They are coming because the money is here. If they do not come, new companies will be formed, and they will come. Then they will wish that they had come.

Let me make one point. If we ask all of America, in we had some sort of referendum, and asked whether you would rather have the Government spend your health care money for you, or would you rather spend it yourself, is there any question in your mind where the results will be? The same amount of money will be available to you. Do you want the Government to decide how it is spent, or do you want to spend it yourself and make your own decisions, and exercise individual responsibility, which is at the heart of a free society. I think you would get a roar back—let us do it.

Would any of you disagree with me?

Senator CHAFEE. No.

Mr. PEROT. So I say, let us experiment with that. Let us not dive into an empty pool at night and break our necks. Let us tiptoe into the water with some of these things and find out what works.

Senator CHAFEE. Well, I think that is a good idea. I must say, as I heard your opening remarks about getting everybody involved, the nurses and the administrators and so forth, it seemed to me that Ira Magaziner would have approved of that. That is exactly what he did over a series of years. So I am not sure that we want to go through that process again.

Mr. PEROT. No. First off, we have the people who know the most about the industry create this. The plan you are referring to here had excluded the people who knew the most about the industry because it was felt that they had a conflict of interest. And my analogy was that that is like excluding the architect from a big building.

But once you have all the people who are the leading authorities, bring in young doctors, young medical experts, young nurses, people who are bright and talented but young, they will have the most unorthodox thoughts, based on my business experience. And, for whatever it is worth, most of the incredible medical research ideas come from young people who are not even through medical school.

When you get around the Nobel Prize winners and ask who they want around them, the geniuses that just graduated from medical school, or the geniuses that just graduated from pre-med, they will say give us the geniuses from pre-med because they are not sure that round is round and square is square. They think outside the box. After a while, you sort of know all the rules and you live inside the box. I am not saying bring in people who do not know about it; I am saying bring in young people who know a lot about it.

Senator CHAFEE. Let me ask you your thoughts on Part B, and some kind of means testing. Why should a wealthy person not pay a greater percentage than 30 percent? After all, the Federal Government put $50 billion into Part B last year because the Federal Government is paying 69 percent of the costs of doctors' bills for everybody.

No one is asking any low-income person to pay any more than the 31 percent. But what about the wealthy person?

Mr. PEROT. I have always said, tax me any way you want to, I do not care. That is not the issue. I am not sure I am speaking for everybody that has been lucky in the financial sense, but I feel very strongly about that.

On the other side of it, I feel it would be a joke for me to ever get a Medicare check. I could say that I have been paying for it, and I ought to get it. Well, I do not need it. You are saying pay more for it, or means test for eligibility. If money is a scarce resource, why give it to people who do not need it in a social program?

Again, I have had a lot of people really get upset about Social Security. They say they paid for it, and I say, but you do not need it. That is not the point, Ross, I paid for it. I say fine, will you agree——

Senator CHAFEE. Well, I am restricting my remarks to Medicare. I am not trespassing.

Mr. PEROT. I know, but the principle is the same.

Senator CHAFEE. I am not trespassing into Social Security.

Mr. PEROT. Let us go back to Medicare. You get the same argument, but the fun part is that all of these people give money to charity every year. If they can ever throw that switch and say, I am giving money to help people who need money for their health care, then I think you can get a willingness to give up Medicare for those who do not need it.

Several years ago, I was told by a man who became President Bush's economic advisor that if everybody who did not need Social Security and Medicare gave it up, it would be over $100 billion a year. And that was back in 1987 when he said that. I do not know what it is now, but it ought to be bigger. So there is a big number there.

But raising taxes again is just a debate you would have to go through. In all candor, Senator—and everybody here knows it—the big campaign contributors are the wealthy people, so you are going to get a squeeze if you ever bring that up. But you guys have to live with that all the time. It should not be that way, but that is the way it is.

Senator CHAFEE. I see my time is up. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Roth?

Senator ROTH. Thank you, Mr. Chairman.

You stressed the importance of pilot testing various approaches and concepts, and I very much agree. But we do have a practical problem at the same time. We have been charged with getting major savings during the next 7 years. In fact, we have to make a major saving in the next fiscal year.

So the question is, how do we reconcile these two needs—the need to reduce the cost of the program and make it sustainable and, at the same time, make sure that we introduce change that has a chance of succeeding?

A lot of these ideas have been around—managed care, HMO's. In the Federal Government, we have the Federal employee health plan, which gives the Federal employee and retiree a multitude of selections. And it has worked very well. The costs, for example, of

the Federal health plan have increased something like 6.9 percent, contrasted to 10 or 11 percent.

Do you feel that the experience we have had in the Federal Government, with the Federal employees and retirees, can be a substitute for pilot testing? Do you think what the States have done would be helpful? I would be interested in how you would move ahead.

Mr. PEROT. On a personal basis, if you do not have money, you cannot spend it. And if you need to make a spending cut, you make a spending cut. The two support one another. Once you make that spending cut, you had better have all these innovative programs underway so that you can live with that spending cut, and not really hurt services. I think that you can do both, and they coincide with one another.

In terms of the Federal employee benefit program, I think it is very important to keep it in front of the American people and every Federal employee that the last figure I saw was a $1.7 trillion unfunded liability on Federal employees. If that number is anywhere near correct, that is another giant ticking bomb.

It is irresponsible for our Government to be pounding away at corporations, which they should be, to keep the pension funds fully funded, and not keep its own pension fund funded. That is irresponsible.

That is not a direct answer to your question, but I answered your question directly. I think both complement one another. Make the cuts you have to make. If you do not do these test programs, you are going to have to come back and raise it, because the same programs we have now will not correct it.

So you have got to do these innovative things. Do the innovative things, make the cuts. But just freezing the innovative things that are before you now, and saying that they will work, I believe would be a great mistake because we do not know they will work. Let us test them, make sure, and let the ones that do the best job go forward.

If you can keep it an economically competitive market, it sort of polices itself, which is far better than trying to police it from here.

Senator ROTH. Is part of the problem with Medicare the fact that we have a fee-for-service system? As you say, it gives no incentive to the beneficiary to worry about cost. So should not the general direction of what we seek to do be to move from a defined benefit program to a defined contribution program? In other words, make so much money available to a beneficiary, but let him or her have the freedom to select the kind of insurance program they want.

Mr. PEROT. Anything we can do where each citizen in this country takes care of himself or herself is good for the people and good for the country.

And it is wonderful signal to these young people who are following me to know from the time they enter the work force that they need to get prepared to take care of themselves when they retire. These Government programs exist; this is the amount they are going to cover. You have got to be able to cover the rest, and plan all through your adult life, because people are now living to be pretty old, and you are going to live to be even older, so you want to have fun until you finally have to turn out the lights.

So prepare for it, and do not count on Uncle Sam to take care of you because Uncle Sam does not have any money at all until millions of decent people working first, second and third shifts send money every year. And we have just about taken all the blood out of the turnip there. You cannot get water from a dry well, and we are just about at the bottom of the well.

Raising taxes is really not an option much any more. When you look at both parents working—you have seen the studies—those mothers who are working do not want to be working in most cases; they have to work in order to maintain a decent standard of living for their families. That is a terrible trend in our country, where both parents have to work to have a decent life. That is because of the deteriorating dollar, the deteriorating job base, and increasing taxes.

So we have got to make everybody self-reliant, turn them back into that old frontier spirit where they take care of themselves and exercise individual responsibility, and we will have a much better country.

Senator ROTH. Going back briefly to the means testing—and I am not talking now about the super wealthy—many people back home, as you say, both husband and wife work. The husband may work at the General Motors plant as a blue collar, makes pretty good money. The wife may be a teacher or a secretary. Together they make some pretty good money—$50,000, $75,000.

But they object very strongly to means testing because they say that, first of all, they have worked hard, they have savings, they have planned and, suddenly when they reach retirement, the rules are changed on that, so you do not have the incentives.

Mr. PEROT. Well, I would just say two things to them. When you look at the really truly needy who are retired, and you are not truly needy, the first thing to cross your mind is, "There, but for the grace of God, go I." Why am I not one of the truly needy, and somebody else has plenty? So I am very lucky, and I should share.

We were forced to memorize this when I went to public schools in Texas, when you could still teach ethics. "Help the man who is down today, give him a lift in his sorrow. Life has a very strange way. No one knows what will happen tomorrow."

The greatest Government benefit, welfare program, we will ever have is neighbors helping neighbors. When we were children, just think what neighbors did for one another. Now we live in a world where a lot of people do not even know who their neighbors are. We think the Government will take care of that.

But go back to the old days when everybody came together to build a barn. Or, if a neighbor was sick, everybody rallied around. I remember as a child seeing doctors paid with chickens. That was all they had, so they would give the doctor a chicken if someone got sick, and the doctor took that. I have seen doctors with chickens in their cars. I have seen doctors refuse to take chickens. But this is back to when we took care of one another. It was not because he was afraid to get his car dirty, but he just thought it was wrong to take the chicken because this person was in such dire straits. But he had sworn to help that person, and he did.

Now I think we can raise the American people above that. That is a normal first reaction.

For example—and this is another one of my favorites—the most sensitive thing you can bring up in this country is capital gains tax. Anytime I bring it up I say, whenever you pass the law, tax me at 100 percent, so you do not have to fret about me.

But until the average person in our country understands that we need more money saved, we need more money available for investment, because when we have that money, we can create jobs, and that creates taxpayers. Until they get that multiple step operation, it is hard to get that concept over. And money will tend to go all over the world where it can make the most money. This is not the place where money will make the most money any more. That is the reason for all the global so and so on.

As the biggest market in the world, while we still have a middle class, I would like for everybody in the world to be investing money here, building factories here and creating jobs. That would be our ticket out of Death Valley.

We have just talked about balancing the budget. To do right by these young people, we have got to pay the debt. There is only one way to do that, and that is with a growing and expanding job base. And it is going to take a tremendous amount of capital investment and a business-friendly environment in our country to create that. It all fits together like the pieces of a puzzle.

Senator ROTH. If I could, I would like to ask just one brief final question.

Going over all the ground, I still find at home that there are people who do not believe that Medicare is in trouble. Is there the slightest doubt in your mind that, if we do nothing, Medicare will be in bankruptcy by the year 2002?

Mr. PEROT. No, sir. It will be in bankruptcy. I only do paperback books so everybody can afford one. I want to get them as cheap as they can be. And these books are written for laymen, not for doctors and technicians.

I hope the people will read this book. And I believe, after they read this book, they will say, well, we have got to do it because if we do not do it, we are passing on a burden to our children.

I have talked to thousands of these people across the country over the last 4 years. If I had to assemble one group to go and do mission impossible, I would say give me the people who went through the Depression, fought World War II. That is a tough crowd, and a great crowd.

A professor at Princeton made a beautiful speech on Family Day. He called it the wild geese generation. I wish I had brought a copy for you because you would love it. He was saying to all the people graduating from Princeton, that elite school, you need the characteristics of the wild geese. And he told them about them. Now those are the people you are saying will not do it. They are the best in the country; they will do what is right.

Now I pray for one other thing that we really have not discussed today. Bury partisanship, team up. Divided teams lose; united teams win. We can win one for the American people if we bury the partisan bickering, bury the tricks and propaganda. As we approach an election year, it is normal for it to come up.

And let us work on this problem in an intelligent, rational way. We have got to do it. Let us just figure out the best way to do it.

And let us recognize that, even though we think we have perfection the day we start, it will not be nearly as good as when it is 2 years old, 3 years old, 5 years old. It should get better every year. If it is not getting better every year, then we have done something fatally wrong. We have frozen it.

Senator ROTH. Thank you, Mr. Perot.

The CHAIRMAN. Senator Nickles?

Senator NICKLES. Mr. Chairman, thank you very much. And, Mr. Perot, thank you for joining us. I have not read all of your book, but I have looked through a lot of it. You have a chart on page 84 which I think is of great significance because it shows the maximum amount of tax rates and wages subject to Medicare.

The Medicare fund is going broke. Senator Roth, we can say it a lot of times, President Clinton's trustees can say it. Maybe the American people will wake up to it. But next year, it is going to pay out more than it takes in, and it does that continually. It has a so-called theoretical trust fund. I would put a theoretical trust fund at $125 billion, and that will be gone in 6 or 7 years.

There are only two ways to solve it, as I can see. You either increase the payroll taxes or you slow the amount of outlays that are going out. Right now, they are projected to grow at 10 percent. If they continue on that path, it is going to be bankrupt, and there is no doubt about that.

Next year it is paying out more than it is taking in, you can say that it is well on its way towards bankruptcy.

I think the chart on page 84 is very significant because it shows the rapid increase in wage rates. I had some community meetings, and I would let my constituents know about it. We have two options—we either increase payroll taxes or we reduce the rate of growth of the program.

Payroll taxes under Medicare have exploded in the last 15 years. The maximum payroll tax in 1980 was $271. In 1986, it had more than quadrupled; it was $1,218. I am talking about the maximum tax because the wage rate and the tax rate both went up. In 1993, it went up to $3,900. Somebody who made $135,000 paid almost $4,000. So I do not think that is the solution.

We have had enormous tax increases, wage base rates and the tax rate, but that still has not solved the problem. The problem is that the expenditures have been running out of control, so we have to reduce the growth. Even President Clinton has said as much. As Chairman Packwood has mentioned, he has a proposal now that would have Medicare grow at about 7 percent. We have one that says it will grow at 6.4 percent. But we need to reduce the growth, and how do we do that?

But I compliment you on having this schedule because people need to see how taxes have exploded. I have a 25-year-old son who is a taxpayer, who is very upset about payroll taxes right now. And I happen to concur with him. A lot of people are upset about it.

So I think we can see through that chart that raising the payroll tax is not the solution. So then we have to talk about other solutions. How can we reduce the growth? I looked at some of your proposals, some of your solutions. One which you mention was means testing Part B. You have a section in here which addresses it. I do not know that it is a recommendation but, basically, it says some-

thing about collecting a tax. "The maximum premium would be over 50 percent of the cost for individuals with incomes exceeding 60 percent." Well, right now the Federal Government is paying 70 percent. So if individuals made more than $60,000, they would have to pay half of it.

Well, I have a problem with asking young people who are struggling to survive to be subsidizing people's Part B premiums. Part B is subsidized by the taxpayers, as Senator Chafee mentioned, to the tune of about $50 billion a year.

I have a problem asking young people who cannot afford that to be subsidizing other people's premiums, who do not need the subsidy. So some people will say that is indirectly a tax increase. I do not think so. If we eliminate a high income person, who can afford to pay their Part B premium, which pays their doctor costs, should they not pay it instead of asking other people to pay it? But that is one of the issues that we will wrestle with.

You also mentioned the disproportionate share program. That is a program that started in 1989, at a cost of $400 million. It is a $10 billion program right now, so it has exploded.

Medicaid—and I appreciate the fact that your book has a lot of good facts and information. Medicaid, which we are also going to have to wrestle with in this Committee, grew at 29, 28, 13 and 8 percent over the last 4 years. You cannot have those kinds of compounding, exploding growth rates. Part of that was because of the disproportionate share program. Part of it was because of provider taxes. States have figured out ways that they would raise the tax a little bit. If they raised the tax $1, they would get $2 or $3 from the Federal Government. So it was a great way to push more of the obligation onto the Federal Government.

So I think you have done a great service for some of your suggestions, but also some of the factual information you have on the growth of these programs.

I appreciate that. Maybe by your appearance today, by this book, by this hearing—Mr. Chairman, I compliment you for doing it—we can wake more people up and say, hey, we have a bipartisan problem. President Clinton had better recognize it. This Congress had better recognize it, and we had better work together to solve it, or else we are not doing seniors or this country a favor. We are basically shunning our responsibility and obligation if we do not address this and try to moderate the growth of this program and keep it solvent for future generations.

So I appreciate your effort and your statement before the Committee today.

Mr. PEROT. Thank you, sir. I believe that in a few weeks, if an intensive effort is made to educate the American people, there will be a groundswell as we approach 1996 to deal with this, not avoid it. Hopefully, that will turn it into a bipartisan effort where we just work on the problem. Would that not be fun? Just work night and day on the problem.

I have had business problems. Let me give you an analogy, and then I will come down to a specific recommendation of how I would solve the real problem. You have got to put a lid on this thing and slow it down to balance the budget. And that is something that has to be done now. We cannot pilot test and study forever. And I un-

derstand that. If I had this problem in business, where my costs were running away on a given big project, I would pull together a small talented team and say, guys, what are we going to do about it. I had one that literally decided they would never go home until they figured out the answer. They cleaned out a classroom in one of our education centers, slept there, and in 3 weeks totally changed the whole idea, gave better service, cut costs, cleared the problem, the customer was thrilled, and so on. It was bright, creative ideas.

I would go ahead and put the lid on it. I would say, guys, we are slowing the rate of increase. Watch my lips—we are slowing the rate of increase. And we are slowing it away from hurricane force strength just to tropical storm force strength. It is still going too fast.

I would have two teams. When I have a real problem, I get two teams because people love to compete. And I would say, your goal is to stop the growth, and your real goal, the medal of honor winners on this one are going to be the ones who figure out how to deliver better service at a lower cost. I want to cut growth. And you will get so many interesting and creative ideas that the cost to pilot those will not break the program.

Then we can really find out what really works, what does not work, and I think you will start to put the lid on it. You can go ahead to your balanced budget and you have also created this very creative, dynamic process to fix it and permanently inject it with a mood that we are going to make it better every day.

Let us assume that you run the 4-minute mile in the Olympics, you know that your only purpose in life is to run 3:59. You have to beat the record. If you could only create that spirit here. Let us assume that the world is sending people over here to study Medicare and Medicaid in a few years, I hope you would be totally dissatisfied with it the way it is. You would say that we can make it better.

At one time, we thought black and white television was as good as you get, right? What if everybody had said that is it, do not try any more? What if the Government had funded that program and said we have black and white TV, freeze it there?

It gets better every day. We thought the vacuum tube was about as good as you would ever get. And then somebody who did not know any better created the integrated circuit, a man nobody knows, named Jack Kilby. He is still alive in Dallas, Texas. And he changed the world. You say, well, did he have a giant team? No. Small, high-talent teams always make the sea changes. Edison should not have done what he did, right?

I will close on this. Going back to these young people, I will never forget this young lady who just graduated from college, who decided that our Government needed an annual financial report. Publicly owned corporations have them, and our Government did not have one.

She was working her way on part scholarship at Harvard. He grandmother never got to finish school, was sacrificing and working to help her get through. Her parents were sacrificing and working. Now look at that. That is what Medicare ought to be, everybody teamed up and working on whatever that program is. The brains

of that whole family were energized to try to get Meredith through school.

Then Meredith had this idea, did not have any money to implement it, borrowed $2,500, wrote the first annual financial report of the United States of America. Here is this young lady, nobody from nowhere. I should not say that because she is so talented, but she is nobody you ever read about in People Magazine. But she just had to do it. You say, well, did she not have a 50-person task force? No. She just did it.

Harper-Collins not only published it, but has her under multi-year contract now. She has got to go to work but, interestingly enough, here is this young lady, who maybe would never have gotten to go to college, who now has a degree from Harvard, finished near the top of her class, and has now been employed by Morgan-Stanley in New York, which is quite a compliment to her. If you would ever meet her, she is so nice, she is so modest and so unfull of herself, you would want to adopt her. I have tried; her parents will not give her up.

But the point is, these are the young people we are tinkering with. And the second point is that one person typically makes the difference. Small high-talent teams, put together two or three teams, let them compete to see who can do it the best. Keep it dynamic, really keep the pressure on to make it better every day, and you will be amazed how much you have overstated the need for Medicare and Medicaid in your cuts, and you will be thrilled, right? You would be delighted to come back and lower the price again next year.

The CHAIRMAN. I will give you another example of just what you said. When we had the telephone antitrust settlement that broke up AT&T and spun off the seven regional Bells, what was the one thing that was left out of the settlement and was not touched by the Government? Cellular phones. There were only 25,000 of them in 1982.

AT&T predicted that the market would not exceed a million by the turn of the century. There are 25 million today. There will be 125 million in 10 years, and these did not come from the giants. These came from little entrepreneurs, just the kind of teams you are talking about said there is a market for these. The big companies are getting into them now, but they were not the innovators. And I suppose if the Government had seen this coming, we would have somehow included them in the antitrust decree and, therefore, stunted their development.

Mr. PEROT. And there is a team in Kansas who are now in the magazines, they wrote me several years ago, and I have followed them closely.

A couple of farmers decided they could make a new reaper that would revolutionize harvesting grain. And I love their spirit, but I thought, boy, this is going to be an uphill pull against the giant companies that do this. Well, to make a long story short, they have made it, it works, it is revolutionary, and John Deere has just teamed up with them to mass produce it.

Now that is the way great things are created. And if you look at what they had to go through to get it done, the fact that they were

lean, the fact that they had to use brains and wits as a substitute for money, was an asset.

In my business career—and I am sure this is true in Government programs too—brains and wits will beat huge spending ten times out of ten. We had to compete with IBM. We never should have been able to even get in the ring. But the biggest advantage our guys had was they knew they had to out-think them, they had to have better ideas, and they had to do it at a better cost in a shorter period of time.

Now if we can create that spirit around these social programs, I think we will give better service, we will get spending under control, you will be coming back together every year and saying can we lower the lid again? And your teams, which will not cost you very much at all, I would rotate the teams, not let it become a career, and I would keep bringing young people into it, and let the people who have been in it who remain come back in. They will be so involved that they will want to continue to give you ideas and consult for nothing. And that is great.

To use FDR's term, they will be dollar-a-year people and just keep giving you their good ideas. You will be stunned at how great you can make this program over a 5-year period. If we leave it like it is, just pour the money out there and say have fun with it, we are just taking it right out of their pockets.

You and I will make it, we will turn off the lights. But you would not want to be around here in the 21st century, when they have to clean up the mess.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

First, I want to commend the charts in this. I know you are associated with charts, but I want to commend the charts that are in this. Of course you give the source of each of the charts, which is very important. One of the charts that I commend to everyone is on page 57, which shows the growth in the over 85 population of the nation. I am sorry you do not have one for those over 65 to show the growth of the whole Medicare population. Maybe you do.

Mr. PEROT. Yes.

Senator CHAFEE. But this shows astonishing growth of those over 85. Now it is 3 percent of the population over 85; in 50 years, it will be 13.2 percent, which is a 400 percent increase. And, of course, it leaps up even further than that.

The second point I would like to make is to reinforce the point you make, which I think is all too frequently overlooked in this Nation. You started off by saying that the old people want this Nation to succeed, want the young people to have a decent life, want this nation to be flourishing in the next century.

All too often the impression is given that they do not give a hoot about the young, and that they are just out for themselves. I do not believe that is true. At least I do not find that true in my State.

It is our duty to present to them clearly what the problems are. Now one of the canards that is circulated is that all we are doing this for is so we can have a tax cut for the rich.

Now every nickel that is saved under the HI, the hospital insurance fund, every single nickel that is saved, goes back into that program. It is not taken out; it cannot be taken out because that

is the way the program works. It goes into the trust fund. If you spend less money, you are taking less money out of the trust fund. So the idea that it is available for some tax cut is nonsense.

So, Mr. Chairman, I think this has been a good hearing. In your book, I think you made some reference to the quotes that we use from the report. I do not know when it was published.

Mr. PEROT. Right.

Senator CHAFEE. But again, these reports, these quotes, come from members of the President's Cabinet. Who signs it? Robert Rubin, Secretary of the Treasury, Robert Reich, Secretary of Labor, Donna Shalala, Secretary of Health and Human Services, Shirley Chater, Commissioner of Social Security, and the two public members appointed by this administration. They are the ones who use words like "crisis," "alarm," "urgency," "we have got to do something."

Mr. PEROT. But you know and I know that there are some guys over there in the side room whose job is to spin it.

Senator CHAFEE. Is to what?

Mr. PEROT. Spin it, s-p-i-n—you know, spin the story. Facts do not matter. I think we need to get the American people back in the Joe Friday mode where we just get the facts, ma'am.

That 3-day meeting we held in Dallas, I hope you all saw pictures of the audience. They were ordinary people who paid their own expenses to come all the way across the country, taking notes for 12 hours a day, hearing some of the top policy speakers in our country explaining these issues to them. Their thirst for information was insatiable. I was afraid they would fall asleep; I was afraid I would fall asleep. You know, with that much you get into an information overdose. The audience was on the edge of its seat. You would have thought it was an exciting movie they were watching, because they need to know this and understand it.

But for a who's who of the Cabinet to sign something, and then for everybody to say that does not mean anything, makes you wonder. The numbers I quoted earlier on a $4.1 trillion increase in the debt in the year 2030, that should be front page news. It is out of the Alice Rivlin memo last October. That does not get much attention, but it will get a lot of attention from you guys when you are out there trying to pay it.

When you look at this aging population, here is the funny part. Everybody is getting older and older. Pretty soon, we will all live as long as Noah. Noah was 400 when the flood occurred, and died when he was 650, according to Genesis. I am not sure how that worked but, just take those numbers, he lived a long time.

We always say, old as Methuselah. It turns out that Methuselah's grandson lived a longer than Methuselah.

This could impact a lot of elderly people in their lifetimes. With the aging population right now, roughly 18 percent of the State of Florida is elderly. Within not too many years, we will in effect have that many elderly in every State. If these programs collapse as the aging population increases, everybody will suffer.

I learned one interesting lesson. You talk about your experiences when you go home. If you talk to associations that represent groups of people, you get a very different impression than when you talk to the people themselves.

My first indoctrination on that was when I was working on public school reform in Texas. I talked to the principals' association, the superintendents' association. All they were interested in was football. Then I realized that 65 percent of the people on the board of directors were ex-coaches. Then I found out that the reason they got to be ex-coaches is that they could not win football games. People liked them, so they made them principal and superintendent.

So I decided I had better go and talk to teachers. I talked to teachers directly and got educated, and learned the facts. They were down on the front lines, and that is where the real information was.

Is it not interesting that in 1993 we had 110 rallies across the country, several thousand people in each rally, a huge number of elderly people in every rally, and not once did anybody boo or hiss or act up when we discussed these issues. They were on the edge of their chairs, saying all right, give us the problem and let us figure out how to solve it.

I think that if Washington gets into the problem-solving mode, it can do a great deal to regain the trust and confidence of the American people. It would really be exciting for our country if you all were just heads down.

And you are in an interesting position. You do not just have Medicare, you have Medicaid, Social Security, what other big gorillas do you have?

The CHAIRMAN. Welfare.

Mr. PEROT. Welfare.

The CHAIRMAN. Earned income tax credit. That is about enough.

Mr. PEROT. That is right. You have all the taxes.

The CHAIRMAN. All the taxes.

Mr. PEROT. Again, one of the saddest things in this country, rambling a little bit, is people work all their lives, own a little farm, own a little company, and have to sell it and give most of it to the Federal Government when they retire.

The CHAIRMAN. I hate to tell you this, but we also have NAFTA.

Mr. PEROT. And you have NAFTA. Well, you have earned a special place if you are dealing with all those at once.

But just think of the American dream. You work all your life, you build a little company, you buy a house, what have you, but when you die you have to dispose of it to give the Federal Government taxes, and you have no confidence that that money will be spent wisely.

See, that has got to be changed. I will let you go back to work. Your superstars are behind me, so let me get off the podium.

The CHAIRMAN. Did you have one more question, Bill?

Mr. PEROT. Yes, sir.

The CHAIRMAN. Bill has one more, I think.

Senator ROTH. Time is running out. One of my concerns is how do we develop a consensus to do something? You talked about a bipartisan approach, and I think that is critically important in this area. I made some comments in my opening statement.

You have been remarkably successful in bringing people from diverse backgrounds together in a common cause. I wonder if you have any recommendation as to how we can develop it.

Mr. PEROT. Yes, sir. The way we can do it quickly is through television. C-Span is a wonderful asset to this country. A huge audience followed that 3-day event.

Now if you would just think about this 3-day event, and you are into television programming, you say this will never compete with Oprah and the OJ trial, and all that stuff. If Madonna does a stunt, everybody will switch to that channel.

But the point is, they did. People are thirsty for information. Anything that you all can do on a bipartisan basis to get the networks to do what C-Span does, at least a part of the day, to cover these things so that the American people understand them.

Jefferson said it beautifully. I cannot say his exact words, but he said, "As long as the American people are well informed, I have great confidence in the future of my country."

So our challenge, I think, is to fully inform them on these complexities. Now if you say let us get rid of the inheritance tax, and this person over here says that is for the rich, then you really have not had a discussion.

Senator ROTH. That is right.

Mr. PEROT. Forget the rich. Think about the guy with the farm, think about the guy with the house, think about the guy that has worked all his life, played by the rules, and now he has got to send it to Uncle Sam and have it wasted. He would much rather pass it on to his children.

Senator ROTH. Well, I would hope you would send your book around as many places as you can. It would be very helpful.

Mr. PEROT. We have. I have a copy for every Member of the Committee. I will leave them with your staff.

The CHAIRMAN. Mr. Perot, thank you very, very much for taking this much time.

Mr. PEROT. It is a privilege to be with you. Good luck to you in your work. If we can help in any way, please call on us.

The CHAIRMAN. Thank you.

We will move on with a panel consisting of Jake Hansen, who is the vice president for Government affairs for the Seniors Coalition, and Jonathan Karl, who is the co-chairman of the Third Millennium.

Mr. Hansen, we will take you first because you are first on the witness list.

**STATEMENT OF JAKE HANSEN, VICE PRESIDENT FOR GOVERNMENT AFFAIRS, THE SENIORS COALITION, WASHINGTON, DC**

Mr. HANSEN. All right. Thank you.

Mr. Chairman, my name is Jake Hansen. I am vice president for Government affairs for the Seniors Coalition.

The Seniors Coalition is a nonprofit organization representing concerns and interests of older Americans. We have over 2 million members and supporters across the country. And it is because of them, and on their behalf, that I speak before you today. And I really do appreciate your giving us this opportunity.

I am reminded of the cartoon character, Pogo, who is quoted as having said, "We have met the enemy, and he is us." If Medicare

is not reformed now, the enemy of our children and grandchildren is indeed us.

It is the dream of every parent that their child have a better life than their own. But, if we do not reform Medicare, we will unfortunately leave to our children and grandchildren a lifestyle far more limited than ours. We will leave them a lifetime of debt, burden and old age without affordable health care.

Let me speak about this burden. When Medicare was created 30 years ago, there were 4.5 workers contributing to Medicare for every beneficiary receiving services. Today that number has dropped to only 3.9 workers per recipient, a substantial difference.

Even more important is the ratio of workers to beneficiaries will continue to drop, reaching critical levels as baby boomers begin to reach seniority in 2010.

In fact, the Health Care Financing Administration predicts that there will be fewer than 2.5 workers for every Medicare beneficiary just 30 years from now.

What does this mean to a young worker today? It means that his child or grandchild will be required to carry almost twice the load as each of us is bearing, and we are already going under trying to shoulder that.

Add to that the dual impact of skyrocketing health care costs and the soaring national debt, and it becomes very clear. The burden we leave to the next generation is unbearable.

Here is a real life example of how the Medicare crisis affects a working man and woman. The Medicare trustees report for 1995 says, "Keeping Medicare Part A afloat for another 25 years will require an immediate 1.3 percent increase in payroll taxes." What does this mean to a young person currently making $25,000 a year? It means that his Medicare tax payments increase from $362 to $525. It also means that his employer must pay another $162 for his services.

It is a double loss, reducing the real wages of the worker and restricting the money the employer has available for growth and salary increases. And this is only a stopgap measure. The trustees say that in 25 years we will have to raise taxes again.

Here is yet another dismal aspect of this crisis. When Medicare was created, Part B costs were to be split between beneficiaries and taxpayers. But over the years, the balance has shifted. Today, beneficiary payments cover only 28 percent of the total cost, with general revenues paying the remaining 72 percent.

But these facts, as disturbing as they might be, are not the whole story. Part B costs increased by over 50 percent in the last 5 years. Who paid? Everyone who pays taxes, including the young worker who will be asked to bear the increased payroll tax burden in the future.

Some estimates suggest that paying for Part B will require a 40 percent increase in the income tax rate over the next generation. Is this feasible? Of course not.

Congress has a responsibility to older Americans, to protect them. But it has no less an obligation to their children and grandchildren. We do not serve any generation well by enslaving another on their behalf. We need bold thinking, new options, a way of doing business that removes the barriers that have limited the health

care choices of seniors, and prevented competition and American ingenuity from driving down costs and increasing efficiency.

There are many misconceptions about older adults in our society. They are not greedy; they are not willing to condemn future generations to unbearable burdens in order to live comfortably today.

On behalf of our members, I want to state that older Americans want—in fact, demand—a solution to the Medicare crisis that protects every American from financial ruin and, at the same time, provides for the health care needs of its oldest citizens.

We believe the answer to the problem lies in empowering older Americans to make many health care decisions themselves, and through providing them with options and choices that have heretofore been unavailable. We believe that by giving America's oldest and wisest consumers a voice in the health care marketplace, their experience will lead all of us—consumers of all ages, health care providers, insurers, Government officials and members of Congress—to a reasonable, affordable and workable Medicare system.

Thank you.

The CHAIRMAN. Mr. Hansen, thank you.

[The prepared statement of Mr. Hansen appears in the appendix.]

Now we will take Jonathan Karl. For those who do not know him as other than the co-chairman of the Third Millennium, he is also a reporter for the New York Post. I asked him what kind of reporting, and he said, "investigative reporting." I said, what subject? He said, "budget and economics." I thought to myself that I cannot think of a subject that needs investigative reporting more than budget and economics.

Mr. Karl?

**STATEMENT OF JONATHAN D. KARL, CO-CHAIRMAN, THIRD MILLENNIUM, NEW YORK, NY**

Mr. KARL. Thank you, Mr. Chairman.

I want to thank you for inviting Third Millennium to participate in this dialogue on reforming Medicare, which now consumes more tax dollars than any other category of Federal spending besides Social Security and national defense.

My name is Jonathan Karl. I am co-chairman of Third Millennium and a reporter for the New York Post. Third Millennium is a nonpartisan group of Americans born after 1960. We are dedicated to pushing our political leaders to ask the most neglected question in American politics. That is, how do today's policies affect future generations?

There is no more important place to ask this question than in the debate surrounding Medicare. Further, the debate is about much more than just Medicare. This is a test, Mr. Chairman, of your ability to leave future generations the same opportunities that previous generations have left us. And you, our political leaders, unfortunately are failing this test.

But do not take my word for it. Read President Clinton's 1995 budget. In this you will see a little-noticed section called "Generational Accounting." Mr. Perot referred to it briefly. In this section, you received your report card. And it did not look too good. Here is how it went.

Well, first let me explain. Generational accounting measures the lifetime net tax rates that each generation can expect to pay over the course of their working lives. This section of Clinton's budget depicts and alarming story of lifetime tax rates getting higher and higher for each generation, leaving the most unbearable burden not on my generation, but on Americans being born today.

For Americans born in 1900, the average lifetime tax rate was 23 percent. For those born in 1940, the average lifetime tax rate climbed to 31 percent. For my generation, those born in 1970, the tax rate climbed to 36.5 percent. And remember, this is net taxes, taxes minus direct benefits received.

But the worst economic news is for those born today. For them, the generational accounting section of President Clinton's budget projects economic disaster. Forced to pay the bills that we refuse to pay to day, they will face an average net tax rate of 82 percent.

The burden we are placing on these future taxpayers is unconscionable. And it is a direct result of our unwillingness to control or even pay for runaway Federal programs. And no program has blown past its initial cost projections more than Medicare.

When President Johnson signed the Medicare Act in 1965, he said that an extra $500 million of spending would be no problem for the Federal budget. He put Medicare's initial annual cost at $500 million.

Well, as we all know, President Johnson was more than off target; he was dead wrong. Medicare spending has soared to more than $178 billion this year. And it is projected to reach $345 billion in just 7 years. That is about 700 times President Johnson's projection of the program's initial cost.

And the Medicare trustees who, as we know, were appointed by President Clinton, say that Medicare Part A will be bankrupt in just 6 years, in the year 2001. Now we used to think of 2001 as kind of a futuristic fantasy about space odysseys. But now 2001 is 6 years away. The problem is here now. On Medicare's 30th anniversary, it looks like a wake is more appropriate than a birthday party.

But it does not have to be that way. If we face up to the challenges today, and stop exploiting elderly Americans with scare tactics about Medicare cuts, we can turn this around. We can pursue fundamental reforms that insure that the elderly of tomorrow have viable health care coverage.

Third Millennium does not pretend to have the magic elixir to cure Medicare's ills. But we believe that the Kerrey-Danforth Bipartisan Commission on Entitlements and Tax Reform offers concrete proposals on where to start. And two of those proposals are especially important.

First, we need a comprehensive means test for Medicare. Currently, Medicare goes to everybody over age 65, regardless of need. Even Ross Perot is eligible to receive Medicare benefits. We can no longer afford to pay the health insurance of wealthy and upper middle-class retirees.

It is both economically unwise and morally wrong for the average American working family, earning just $30,000 a year, to be forced to pay ever increasing payroll taxes to finance huge Medicare wind-

falls for wealthy senior citizens. Young Americans should not be paying for Ross Perot's Medicare, and I am sure he would agree.

Second, we need to raise the eligibility age to 70. With rising life expectancies and an aging population, we need to wake up to demographic realities.

But these reforms represent a modest first step. Like the current reforms before Congress, they do not cut Medicare. They merely control the program's astronomical growth. We need to consider more fundamental reforms, ranging from managed care for beneficiaries to medical savings accounts.

I will close with this. As we pursue this, let us remember that, together with Social Security, Medicare has served as the biggest pyramid scheme in history. Those lucky enough to get in on the scam early have scored an incredible windfall.

Consider former Commerce Secretary Pete Peterson's projection that the average middle-income family that retired in 1981 received back every dime they put into Medicare and Social Security, plus interest, in just 10 years. Not only that, but they received everything back that they ever paid in income taxes.

For my generation, for those entering the work force today, the picture is dramatically different. Stagnant real wages are hit with rising payroll taxes to subsidize programs that will be broke long before we retire.

To change this, we need political leaders with the courage to face up to the powerful special interests aligned against the future. If you try to reform Medicare, they will yell and scream, they will put out expensive lobbying campaigns against you. But please resist the temptation to go the easy way. Make the tough choices today. Restrain Medicare. Save Medicare. Your grandchildren will thank you. And perhaps that is even more important than getting reelected.

Thank you.

[The prepared statement of Mr. Karl appears in the appendix.]

The CHAIRMAN. Let me ask you, Mr. Karl, about means testing. I support means testing but, if we put it at the level that most people talk about—maybe $80,000 single, $100,000 joint, or $125,000, or $60,000 and $80,000—it does not raise a lot of money. This is no reason not to do it, but it does not solve our budget problem.

How low would you go to start means testing?

Mr. KARL. Well, first of all, it is not right just to look at income levels.

Pete Peterson has talked about an affluence test, which is more significant than an income test. I have seen estimates from Pete Peterson indicating that, if we institute the affluence test he recommends, we can save up to $30 billion a year—perhaps more.

That is not enough to solve the entire problem, but it is a very good start, and it gets at the fundamental unfairness of the current system. This is that you have people struggling to make it today, paying these rising payroll taxes, that are supposed to go into a trust fund so it is there when they retire, but we know is simply being squandered today.

The CHAIRMAN. I have also supported raising the retirement age to 70, for both Medicare and Social Security. And you can do that gradually. You do not have to do that next year, so that you do not

suddenly yank the rug out from under somebody who is 63 years of age, and thinking of retiring.

That is something that will help tremendously long term. Social Security is a long-term problem, but every year we put it off, it is 1 year tougher to solve.

Those two things we could do. Of course we have, over a long period of time, raised the retirement age to 67 now, but it is a long, long time, longer than it should be.

Let me ask you further. Mr. Perot said this very well. We have two problems; one is a budget problem, the other is that Medicare is bankrupt. Whether we have a tax cut or a tax increase, it is not just out of general funds. Either you cut taxes or you raise them. It does not solve the problem.

President Clinton had a $250 billion tax increase, and it did not solve Medicare's problem. If we were to have a tax cut in the budget this year, it does not solve Medicare's problem one way or the other. Medicare is a payroll tax on Part A. Unless we are talking about increasing the payroll tax, or moderating benefits now—not in the year 2002 but now—we are bankrupt.

Give me some further ideas, in addition to indexing Part B. And I assume by that you mean indexing the percentage. It is now at 31 percent. Or would you index the amount of money that people pay?

Mr. KARL. Well, I think you can do both. I think you can work from both sides. And we need to look at both Part A and Part B.

The fundamental point Mr. Perot mentioned is that there is no reason that the money should be going to those who do not need it at this point. We can yell and scream about how much has been put into the system over the course of our working lives. But the bottom line is that the money is coming from today's taxes. We have this huge budget explosion, and we can no longer afford it.

The CHAIRMAN. Very few people realize that, and both of you are aware of it. We talk about the trust funds. The trust funds, of course, are nothing but Federal Government bonds that the Social Security Administration holds. In order to pay those bonds, we have to borrow more money. It is not like the normal trust fund that your grandmother sets up for you at the bank. They have an account, and they invest it for you. And, unless the whole bank goes bankrupt, that is your account and, properly managed, will provide you money.

We take all the surplus and just spend it now. I do not mean this argument that we spend it on defense or environment. We spend it for everything. We spend it for education, we spend it for medical research, we spend it for environmental protection, we spend it for the Coast Guard.

We spend it for everything that Government does, and give the Social Security Administration and the Medicare trust fund Government bonds, that is IOU's. We will pay you in the future when they become due. The only way you can pay it is to borrow it or raise taxes.

At some stage—I do not know when it comes—but you talk about this being a pyramid club or a Ponzi scheme, and it is in the sense that it depends upon the willingness of those at the bottom to continue to pay in the money necessary to pay the benefits at the top.

One day they will say no more. I do not know when that is. I do not know whether that is when the payroll tax, employer and employee, gets to 15 percent, 18 percent, 19 percent, 20 percent. But at some stage, it gets there.

Then you have a generational warfare, or close to it, with those who are receiving benefits thinking that the Government has lied to them, and a generation 20, 30 or 40 years younger saying we never made that promise, and we cannot afford that promise.

And I hope we can take the action to avoid that conflict. Head to head conflict probably will not come in the service of anybody on this Committee at the moment. We could do nothing and put it off for 10 or 12 years. But it will come, as surely as we are here.

Senator Chafee?

Senator CHAFEE. Thank you very much, Mr. Chairman.

Mr. Karl, I am not sure what you mean. The Chairman asked you this, but I am not sure I understood the answer. Index the Part B premium to the cost of the program. Could you explain that please?

Mr. KARL. Yes. In other words, the premiums are currently covering 30 percent of costs.

Senator CHAFEE. Right.

Mr. KARL. They used to cover much more.

Senator CHAFEE. They used to cover 50 percent when the program started.

Mr. KARL. Yes.

Senator CHAFEE. Then it slowed down to something like 15 percent, then we made it 25 percent. Now it is really sort of by coincidence that it has worked out to 30 percent.

Mr. KARL. What we are saying is let us prevent the situation where rising health care costs make it go back down to 15 percent or 10 percent.

Senator CHAFEE. Oh. Index the dollar amount?

Mr. KARL. Yes.

Senator CHAFEE. So I think it is now $46 a month. You would have that indexed so it would always remain at 30 percent.

Mr. KARL. Thirty percent of the cost, yes.

Senator CHAFEE. Or perhaps higher. My point is, let us not get into a situation where the program is covering 70 or 80 percent of the cost. I see.

I want to commend you and Mr. Hansen for the point you have made. By the way, if you have any application forms, I have five children who would probably like to join you.

Mr. KARL. We will get them right to you.

Senator CHAFEE. It is important that your generation, both your generations, be represented in these discussions. As I said to Mr. Perot, I find in my State that the senior citizens do care. They are not a bunch of grabbing, avaricious individuals, as they are sometimes portrayed. That is not true, at least in my State, with the individuals I see.

Now as far as raising the eligibility age to 70, I just do not know. Is there any nation that has done that? I know this all goes back to Bismarck. Somehow he chose 65, and I do not think there is anything magic about 65. But do either of you know of any nations where the age has been raised to something beyond 65?

Mr. HANSEN. I am not aware of any that have gone as far as 70. But keep in mind that that this is the first generation we have ever had that has actually grown old. Up until now, we have lived in a world where people had a tendency to die a little bit younger. And a lot of very good things have happened. This is a great problem to have, quite frankly, people getting older and living better lives.

So I think we have to break a little bit of new ground. I do not know whether 70 is a magical figure. To assure that there is no confusion, I think it makes a great deal of sense to have Medicare track along with Social Security, at a minimum. It would be terrible to have two different ages. Can you imagine the problems we would end up with? I think we have to push forward on that.

Mr. KARL. Let us remember, when President Roosevelt first started Social Security, life expectancy was 65½ years. So on an average scale, the projection was that you had people receiving benefits for 6 months.

Now, of course, as shown in Mr. Perot's book, we have life expectancies of 76. And yet the retirement age, the eligibility age, has stayed the same—well, now going to 67.

The CHAIRMAN. The irony of that also is that it is a misleading statistic for this reason. That assumes the average age from birth. If you take how long the people who make it to 65 are likely to live, it is much older than that.

Senator CHAFEE. Thank goodness for that. [Laughter.]

Mr. KARL. Senator, if I could make one quick point. I completely agree with your points about how elderly Americans are willing to work with us on this.

As a matter of fact, in some ways I find the response more enthusiastic from my grandparents' generation. This is the generation that taught America how to sacrifice. This is the generation that got us through the Great Depression, through World War II, gave us the prosperity in the post-war era. This generation does not want to saddle their grandchildren and great grandchildren with these enormous tax rates.

Senator CHAFEE. Well, I certainly agree with you on that. As I said before, that is certainly the experience I have had in my State.

I think your statements were both excellent. Mr. Chairman, I want to commend you for these two witnesses. I might have another question.

The CHAIRMAN. Senator Roth?

Senator ROTH. Well, it is a pleasure to welcome you, Mr. Hansen and Mr. Karl. And I too think that you make a very valued contribution in your statements.

Mr. Perot points out in his book that the private sector has taken the lead in health care. And he says, "Many companies have given their employees a choice of different health care plans. This is perhaps the main reason that private sector health care costs are currently under control, and even decreasing."

So it seems to me that choice of plans, choice of coverage becomes a very important part of the reform. I wonder if you two gentlemen agree with that.

Second, if you do, I would like to ask both of you, Mr. Karl particularly you and your generation, we have talked a lot about the

kind of reforms we need to make now. What should be our goals? Ideally, what should we seek to leave your generation, so that when you become 65 or 70, or maybe 75, whatever the eligibility age is, what kind of a program would you ideally see as being in place? I would be interested in your comments too, Mr. Hansen.

Mr. KARL. Well, I think that Mr. Perot set forth the most important principle, which is one based on individual responsibility, one where there is some freedom to take responsibility for our own health care, our own retirement. That does not mean getting rid of the programs. What that means is restructuring the programs so we can begin thinking now about what is going to be there for us.

Medical savings accounts, even though we have not looked at all the possible unintended consequences, what makes them attractive is that they allow people to take responsibility for their medical expenses, and be rewarded for economizing.

But I think the most important thing is that the system that is in place when my generation retires, and the next generation retires, is that the elderly needy have something there, that there is still a safety net for the elderly who are truly needy. This is something that was not there when FDR put forth the Social Security program, and when President Johnson put forth Medicare.

So the most important thing is to maintain a system of coverage, of benefits, for those who truly need it, not only now but in the future.

Senator ROTH. Let me ask you that question, and I will turn to you, Mr. Hansen. When you speak about coverage for the needy, do you also mean some kind of catastrophic coverage for those who are not needy, at least at the moment. You often have tremendous medical bills at the end which bankrupt people.

Mr. KARL. Yes. A medical crisis at the end of your life wipes out savings almost immediately. We absolutely need some form of catastrophic. That would be part of my ideal system for the next generation as well.

Senator ROTH. Mr. Hansen?

Mr. HANSEN. Well, I think that the ideas and concepts being discussed here and in the House are right on target. I think that Ross Perot is correct that we are going to find savings that we do not even imagine and cannot dream about right now, once we start getting the private sector involved in this.

I think we need more ideas, more choices and more options we can give people. We are going to find that some of them do not work; we are going to find that some of them work very well. And I believe it is going to be very important to have the flexibility to continue improving and shaping the system over a few years. We are not going to get it totally right in 1995.

Senator ROTH. History shows that.

Mr. HANSEN. That is right. Well, I believe we can come up with a system that gives people choices, that brings them back into the picture, that unleashes the creativity we have in the private sector to come up with new ideas.

I think managed care is going to change dramatically from what we know of it today, just because it is already starting to evolve. The pressures that are out there in a free market are not going to allow any type of shoddy service to last for long. I think we are

going to see higher quality and lower prices all the way around. And we are going to feel that throughout the whole health care system.

Senator ROTH. Ross Perot made the point of the desirability of pilot testing, which is desirable. One of my concerns is that we need reform now. We have some very serious budget problems that do not permit us to delay.

Do you feel that the experience we have had in the private sector, for example with managed care, that the Chairman talked about, the experience of Oregon and others is valid? We also have the experience in the Federal employees health plan. Do you think it is necessary to pilot test them, or do you think it is appropriate to proceed now with that kind of approach of choice?

Mr. HANSEN. I think we have enough experience that we can move a very long way. I think though, with that said, we have got to keep the flexibility of being able to make minor changes and add new things, and subtract some things as we go along. But we do not have the luxury of waiting. Medicare is basically bankrupt. If we do not move today, we are in big trouble.

Senator ROTH. I think Ross Perot made a very valid point. I think one of the successes of the Federal health employee plan has been that there is freedom for those administering that plan for the Government to develop new programs and new plans to meet the changing needs of the beneficiaries. I think that is inherently necessary for reform.

My time is up, Mr. Chairman.

The CHAIRMAN. Senator Chafee?

Senator CHAFEE. Thank you, Mr. Chairman.

I would like to follow along with what Senator Roth was saying to both of you. Both of you ably set forth the problem and the crisis, and some solutions. Index the Part B, raise the eligibility to 70, institute a comprehensive means test. Those were Mr. Karl's suggestions.

And, Mr. Hansen, you had some others. Again, you reiterate the point that I believe so strongly, where you say that there are many misconceptions about older adults in our society. They are not greedy, they are not willing to condemn future generations to unbearable burdens. I think we have got to say that more and more because, regrettably, I think too many Democratic office holders are racing around the country trying to stir up the elderly to their worst instincts possible.

The idea of raising the age we are doing anyway, up to 67. I think it will be quite a while before we get to 70. As you say, you have to link Medicare and Social Security together.

Do you have any other thoughts of things we ought to do? For example, the idea is to unleash the private sector. Well, as you know, under Medicare we now have the private sector involved as the intermediary. In most instances, it is really administered by a private insurer. In my State, it is mostly Blue Cross that does it. Now maybe there should be more incentive for them to save money, rather than just administer the thing.

Give us your thoughts, Mr. Hansen. What do you think we ought to do? And Mr. Karl, I will ask you after Mr. Hansen.

Mr. HANSEN. I think you are right that, while we have got to give the private sector the incentive to save money, not just to spend money, and not just to pay the bills on a regular basis, we have got to give them the ability to come up with new and creative ways of saving money.

Right now you have a group of bureaucrats in HCFA who are basically saying here is how much you can pay, here is how you have to pay it, and what is covered and not covered. And we have pretty much developed a one-size-fits-all type of health care system for our Nation's elderly and disabled. And it really does not work.

Different people have different needs, and we have to recognize that.

Senator CHAFEE. It may not work financially but, to the recipients, it works. You have worked a lot with elderly, and there are very few complaints about the system. True, it is going broke, but outside of that little incidental fact, it is working fine for the beneficiary.

Mr. HANSEN. Well, I think that is true. But as we have gone around and talked to our members, and done focus groups and polling on this, we have found that when you really lay it out and say all right, here is what you have now, would you like to have these options that you do not have now, most of them say yes. A lot of them may not take them, but they would like to know they are there.

In a lot of cases, there are people who would like to find a way to have some type of prescription drug coverage above and beyond what they have now. There are people who would like to see more of a catastrophic type coverage, and go ahead and pay more out of pocket at a lower level.

I think we need to find ways of giving people these choices. And I think, in doing that, you are going to find some savings out there.

Let me mention one other thing. We have heard from at least 200,000 of our members, and they agree. It fits exactly with what you are saying. As I have traveled around the country—I just did a town hall meeting with Conrad Burns out in Montana—I am finding everywhere that seniors are very, very receptive to the idea of choices and to the idea that we have to do something. By and large, they recognize that there is a problem, and they are willing to move on it.

Senator CHAFEE. Mr. Karl?

Mr. KARL. Well, I think we have heard a lot of good suggestions thrown around today. I come back to one that looks especially promising, which is the medical savings accounts. This would allow people to have some more out-of-pocket expenses for the lower-cost services, and then have catastrophic coverage above that. But we need something to provide an incentive to economize, an incentive to save.

Right now, as Mr. Perot said, if Medicare is footing the bill, you have no need to even look at it. You get whatever services you can, and you do not try to economize, you do not try to negotiate, you do not try to get better deals.

Senator CHAFEE. Do you worry about the risk selection, all the healthy people streaming into the medical savings accounts, and

leaving the sick people for the Federal Government to take care of in another system?

Mr. KARL. Yes. That is where you come in. I think there is certainly a role for Government here. Part of that is insuring that there is a spreading out of the risk, so you do not have that problem.

Senator CHAFEE. All right. Well, thank you. Thank you, Mr. Chairman. I am glad you had these witnesses. I am glad to hear from both of you.

Senator ROTH. Let me follow on regarding this question about medical savings plans, not directly related to Medicare. As a young man, Mr. Karl, or a younger man, Mr. Hansen, would you be interested in seeing medical savings plans with tax advantages established for the public at large? Do you think that is a desirable goal?

Mr. HANSEN. I think it is. I think that we do have to look at the idea, and the problems with risk selection, but I think that can be managed. And I think that giving the choice to younger people would be good.

I think there should be some very big incentives to make sure that the savings go to pay for long-term care and catastrophic coverage, different things along that line that will help us in the future too.

Senator ROTH. Mr. Karl?

Mr. KARL. I clearly think this is an option we need to look at soon and take seriously. I do not pretend to be an expert on all the implications of it. And I think there are some potential pitfalls, but it seems like one of the most attractive options out there.

Senator ROTH. My final question, Mr. Chairman, is back to the question of developing a consensus. Both of you are heads of organizations that are taking a keen interest. Do you have any advice to give this Committee as to how we can develop a bipartisan consensus?

Mr. HANSEN. Well, I am frustrated at how divisive it has become, because it should be a very simple and straightforward proposition. Medicare is going bankrupt, and we need to work together to fix it. I think, though, that the American public is understanding that, maybe more than we are giving them credit. They understand that there is a problem. They know they want something done. I think they recognize that the solutions that are being talked about are not Draconian, they are not evil, they are not diabolical.

I think you are on the right track. I think that hearings such as this, what C-Span does, what town hall meetings across the country do, we just need to talk as much as we can. We need to use the media, op-eds, letters to the editor. And we are encouraging our members to do that a great deal, and just have dialogue.

Mr. KARL. The most important thing is do not make the mistake of thinking that the huge interest groups—one example might be AARP—their policy statements represent all of their membership. I think, based on our experience at Third Millennium, as I have said, the elderly are some of the most responsive to the message of addressing this problem now.

Another thing on the partisan issue, I think that the Kerrey-Danforth Commission showed that you can have bipartisan consensus on entitlement reform. On the House side, Congressman Jo-

seph Kennedy has been one of the very few to come out and address the problem of Social Security and propose some means testing. And he is no conservative Republican, as we know. [Laughter.]

So I think there is a potential for some real bipartisan consensus, and some real consensus among the generations.

Senator ROTH. Well, gentlemen, thank you for your contributions.

Senator CHAFEE. I want to say, Mr. Chairman, I hope they are right. And I would suggest that they talk to members of the Congressional delegation from my State.

The CHAIRMAN. Fellows, thank you very, very much for coming. We are adjourned.

[Whereupon, at 11:45 a.m., the hearing was concluded.]

# APPENDIX

## Additional Material Submitted for the Record

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### Prepared Statement of Jack Hansen

Good Morning, Mr. Chairman, I am Jake Hansen, Vice President for Governmental Affairs of The Seniors Coalition.

The Seniors Coalition is a non-profit organization representing the concerns and interests of older Americans. We have over 2 million members and supporters throughout the United States. It is on their behalf that I speak before you today and I thank you for giving us this opportunity.

I am reminded of the cartoon character Pogo who is quoted as having said, "We have met the enemy and he is us." If Medicare is not reformed now, the enemy of our children and grandchildren is indeed us.

It is the dream of every parent that their child have a better life than their own, but if we do not reform Medicare, we will unfortunately leave to our children and grandchildren a lifestyle far more limited than ours. We will leave them a lifetime of debt and burden, and old age without affordable healthcare.

Let me speak about this burden. When Medicare was created 30 years ago, there were 4.5 workers contributing to Medicare for every beneficiary receiving services. Today, that number has dropped to only 3.9 workers per recipient, a substantial difference.

Even more important is that the ratio of workers to beneficiaries will continue to drop, reaching critical levels as the Baby Boomers begin to reach seniority in the year 2010.

In fact, the Health Care Financing Administration predicts that there will be fewer then 2.5 workers for every Medicare beneficiary just 30 years from now.

What does this mean to a young worker today? It means that his child or grandchild will be required to carry almost twice the load as each of us is bearing -- and we are already going under trying to shoulder it.

Add to that the dual impact of skyrocketing healthcare costs and a soaring national debt and it becomes very clear: The burden we will leave the next generation is unbearable.

Here is a real life example of how the Medicare crisis affects the working man and woman. The Medicare Trustees 1995 Report says keeping Medicare Part A afloat for another 25 years, requires an immediate 1.3% increase in payroll taxes.

What does that mean to a young person currently making $25,000 per year? It means that his Medicare tax payment increases from $362.50 to $525. It also means his employer must pay another $162.50 for his services.

It is a double loss, reducing the real wages of the worker and restricting the money the employer has available for growth, for salary increases, etc. And, this is only a stop gap measure. The Trustees say that in 25 years, we will have to raise taxes again.

Here is yet another dismal aspect of this crisis. When Medicare was created, Part B costs were to be split between beneficiaries and tax payers, but over the years, the balance has shifted. Today, beneficiary payments cover only 28% of the total costs with general revenues paying the remaining 72%.

But these facts, as disturbing as they might be, are not the whole story. Part B costs increased by over 50% in the last five years. Who paid? Everyone who pays taxes including the young worker who will be asked to bear the increased payroll tax burden. Some estimates suggest that paying for Part B will require a 40% increase in the income tax rate over the next generation. Is this feasible? Of course not.

The Congress has a responsibility to older Americans to protect them, but it has no less an obligation to their children and grandchildren. We do not serve any generation well by enslaving another in their behalf. We need bold thinking, new options, a way of doing business that removes the barriers that have limited the healthcare choices of seniors and prevented competition and American ingenuity from driving down costs and increasing efficiency.

There are many misconceptions about older adults in our society: they are not greedy; they are not willing to condemn future generations to unbearable burdens that in order to live comfortably today.

On behalf of our members, I want to say that older Americans want, in fact, DEMAND a solution to the Medicare crisis that protects every American from financial ruin AND, at the same time, addresses the healthcare needs of its oldest citizens.

We believe the answer to this problem lies in empowering older Americans to make many more healthcare decisions themselves, and through providing them with options and choices that have here-to-fore been unavailable.

We believe, that by giving America's oldest and wisest consumers a voice in the healthcare marketplace, their experience will lead all of us -- consumers of all ages, healthcare providers, insurers, government officials, and members of Congress -- all of us -- to a reasonable, affordable workable Medicare system.

millennium

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**Senate Finance Committee Testimony of Jonathan Karl**
**Co-Founder and Co-Chairman of**
**Third Millennium: Advocates For The Future**
**Dirksen Senate Office Building, Room 215**
**August 30, 1995**

Thank you, Mr. Chairman, for inviting Third Millennium to participate in this dialogue on reforming Medicare, a program that consumes more federal tax dollars than any program other than Social Security and Defense.

My name is Jonathan Karl and I am a co-founder of Third Millennium and a reporter for the *New York Post*. Third Millennium is a non-partisan group of Americans born after 1960. We are dedicated to pushing our political leaders to ask the most neglected question in American politics: How will today's policies affect future generations? There is no more important place to ask this question than in the debate over Medicare.

And the debate is about more than Medicare. This is a test of your ability to leave future generations the same opportunities older generations left to you. You, our elected leaders, are failing this test. But don't take my word for it. Read President Clinton's 1995 budget. In a little-noticed section called "Generational Accounting" you received your report card. Generational accounting measures the burden placed on future taxpayers by calculating the average net lifetime tax rate that each generation can expect to pay over the course of their working lives. This appendix in Clinton's budget tells a startling story of net tax rates climbing higher and higher for each generation, leaving the most unbearable burden for Americans being born today.

For Americans born in 1900, the average lifetime tax rate was 23.6 percent; for those born in 1940, it rises to 31.9 percent; and for those born in 1970, the average lifetime tax rate climbs to 36.5 percent. But the worst economic news is for Americans born after 1992. For them, the generational accounting section of President Clinton's budget projects economic disaster. Forced to pay the bills we refuse to pay today, they will face an average net tax rate of **82** percent.

The burden we are placing on future taxpayers in unconscionable. And it's a direct result of our unwillingness to control—or even pay for—runaway federal programs. And no program has blown past its cost projections more than Medicare. When President Johnson signed the Medicare Act in 1965, he said that an extra $500 million a year would present "no problem" for the federal government. He put Medicare's annual costs at 500 **million** dollars a year. As we all know, President Johnson was way off target; Medicare spending has soared to more than $178 billion for 1995 and a projected $345 **billion** by the year 2002—that's about 700 times President Johnson's estimate of the program's initial cost. And the Medicare trustees—appointed by President

Clinton—say that Medicare Part A will be bankrupt by the year 2001. The year 2001 is no longer some futuristic fantasy about space odysseys. The year 2001 is less than six years away.

On Medicare's 30th anniversary, it looks like a wake is more appropriate than a birthday party. It doesn't have to be that way. If we face up to the challenges today, and if we stop exploiting elderly Americans with scare tactics about Medicare cuts, we can pursue radical reforms that ensure the elderly of tomorrow have viable health-care coverage. Third Millennium doesn't pretend to have the magic elixir for fixing Medicare, but we believe the Kerrey-Danforth Bi-Partisan Commission on Entitlement & Tax Reform offered concrete proposals on where to start:

• **Institute a comprehensive means-test.** We can no longer afford to pay the health insurance of wealthy and upper-middle class retirees. It is economically unwise and morally wrong for the average American working family earning just $30,000 to be forced to pay ever-increasing payroll taxes to finance huge Medicare windfalls for wealthier, golf-playing retirees. We should add graduated Part A premium for beneficiaries who can afford it.

• **Index the Part B premium to cost of the program.** This will ensure this portion of the program at least maintains the 30 percent share of costs now paid by enrollees.

• **Raise the eligibility age to 70.** With rising life expectancies and an aging population, we must wake up to demographic realities. At a minimum, the crisis in the Medicare program also necessitates raising the Part B deductible and reducing Medicare provider payments.

These reforms simply represent a first step. Like other current proposals before Congress they will do nothing to "cut" Medicare, but instead merely control the program's astronomical growth. We need to consider more fundamental reforms ranging from managed care for beneficiaries to medical savings accounts.

Together with Social Security, Medicare has served as the world's biggest pyramid scheme. Those lucky enough to get in on the scam early have scored an incredible windfall; consider former Commerce Secretary Pete Peterson's calculation that after just 10 years, the typical middle-income couple that retired in 1981 received not only the total value, with interest, of all their previous Social Security and Medicare taxes, but also the total value of their lifetime federal income taxes.

For those entering the work force today the picture is dramatically different: stagnant real wages are hit with rising payroll taxes to subsidize programs that will be broke long before they retire. We need political leaders with the courage to face up to the powerful special interests aligned against the future. Ask not what will get you re-elected; ask what will ensure that your grandchildren have a brighter future. Thank you.

# PREPARED STATEMENT OF ROBERT J. SCOTT

## STATEMENT OF OPPOSE

My name is Robert J. Scott. I am Secretary/Treasurer of OPPOSE. OPPOSE is a Colorado Corporation formed by teachers, fire fighters, police officers, and other state and local government employees who have elected not to join the Social Security/Medicare system. The purpose of our organization is to assure the continued financial integrity of our members' retirement and health insurance plans by resisting efforts to mandate Social Security or Medicare coverage of public employees. Our members are found in Alaska, California, Colorado, Illinois, Kentucky, Louisiana, Massachusetts, Minnesota, Nevada, Ohio and Texas. With respect to the issue of mandatory Social Security and Medicare coverage, the interests of OPPOSE are identical to those of the approximately five million public employees throughout the nation who remain outside the Social Security system.

## BACKGROUND

In 1986, as part of the Consolidated Omnibus Budget Reconciliation Act of 1985 ( "COBRA"), Congress enacted a phase-in of Medicare coverage of state and local government employees who were outside the Medicare system by requiring mandatory coverage of newly hired government employees. In every year since the adoption of COBRA, there have been various legislative proposals to raise revenue by undoing this compromise by forcing immediate coverage of all state and local government workers. It has been estimated that mandatory Medicare would raise about $1.4 billion per year in fiscal years 1996-2000.

## MANDATORY MEDICARE COVERAGE SHOULD NOT BE ADOPTED

### I. A mandatory Medicare tax would be regressive.

There are a number of solid reasons for adhering to the COBRA compromise. Perhaps the most important single reason is the impact on the people who would be affected. The last several years have not been kind to teachers, fire fighters, police officers, social workers and other public servants. For example, a recent survey reported in the November 4, 1994, edition of USA Today, showed the average teacher's salary had increased by only two percent in the last year.

Family income for those in the middle income brackets has been virtually stagnant since 1977. A mandatory Medicare tax, imposed now on middle class citizens who benefit from solid retirement security plans, would be severely regressive. Nationwide, the average earnings of a full time state or local public employee are approximately $30,700; the Medicare tax on this amount (1.45 percent) would exceed $440. (See Table A for a state by state analysis.)

Most public employees fall in the second and third quintiles of income. These are families whose average income ranges from about $20,000 per year to about $32,000 per year. Studies based upon CBO data and prepared by the U.S. House of Representatives Ways and Means Committee staff indicate that many of these families actually lost ground during the period 1977 through 1989 or, at best, have progressed only minimally. For example, the second quintile, those between the 20th and 40th percentiles in terms of average family income, actually lost about 1.7 percent in after-tax income, measured in constant dollars, during this thirteen year period. Those in the third quintile, between the 40th and 60th

percentiles in average family income, fared somewhat better, but still realized income growth of less than half a percent per year, uncompounded, throughout this period. Federal income tax rates, as a percentage of pre-tax income, actually increased slightly for the fourth quintile income group. (For the third quintile income group federal tax rates were essentially unchanged.)

Against this background, a proposal to impose a new Medicare tax on approximately 2.0 million middle class public employees is hard to justify. Some of these employees may have decided to remain in public service in part because of the deal that was made in 1986. It would not be fair to renege at this point.

For many public employees, mandatory Medicare would mean the difference between barely making it, and falling deeper into debt. For example, in Illinois, the average teacher's salary is $40,618, while average expenses equal about $700 more than this. The resulting deficit must be borrowed or offset by tightening an already lean allowance for entertainment and personal care. Mandatory Medicare would impose an addition burden of almost $600. Nationwide, this dilemma is fairly typical for public employees. The people who would be affected simply cannot withstand this kind of hit without serious effects on their middle class lifestyle.

II. Mandatory Medicare coverage of middle class public employees now outside of the Medicare system will do little to improve the fiscal soundness of the system.

The HI Trust Fund is currently in trouble. Most estimates indicate that the Trust Fund will run out of money in about the 2002. Thereafter, if no changes occur, the situation will continue to deteriorate. The two principal reasons for these problems are: (1) the escalating cost of providing health care, well above the rate of inflation. In the last several years this situation has improved, but the basic problem remains; and (2) there is also the aging of the general population.

Suggested solutions to these problems have been wide ranging. Many have suggested incentives for managed care. Others have looked at limiting payments to providers. Increasing the eligibility age for Medicare has been suggested by some. Still others want to give the states, or individuals, much more flexibility in how they select health care providers (for example, through a voucher system), partly to provide incentives for Medicare beneficiaries to hold costs down, and partly to preserve the right of patient choice. Very few favor increased taxes.

Most people agree that it would be wise to take action in the near future to bring the HI Fund into long term balance. The reasoning is that the sooner we take action, the less painful the measures will have to be. Politically, however, this means a trade of short term pain for long term gain---always a difficult proposition.

Whatever solutions are adopted, mandatory Medicare should not be one of them. Balancing out Medicare will require hundreds of billions of dollars. Coverage of state and local government employees has been estimated by the Congressional Budget Office between now and the year 2000 to raise a little over $7 billion. Even this estimate may be optimistic. By the year 2000, only about 25 percent of the employees originally grandfathered out of Medicare will still be working for their government employers. After the year 2000, when the HI Trust Fund becomes actuarially insolvent, revenues from mandatory Medicare continue to fall off, eventually declining to virtually nil sometime within the first decade of the next century.

If states were forced, by mandatory Medicare, to raise current wages of employees in order to retain them, the increased state taxes required to pay these wages would, of course, be tax deductible for citizens of the state, thus reducing current federal revenues to some extent. For all of these reasons, mandatory Medicare will not alleviate the problem.

III. Mandatory Medicare would further handicap the ability of state and local governments to provide needed services. Those who are most dependent on government services as a safety net would be most affected.

The effects of mandatory Medicare coverage on state and local governments would be severe. Many states, including states which would be among the most adversely affected by mandatory Medicare coverage, are already suffering under federal mandates which they cannot afford, or which must be financed by sacrificing other, much needed, programs.

In Illinois, the state legislature worked much of 1993 to prevent a total shut down of the Chicago school system which must, by law, have a balanced budget. In Michigan, it remained in doubt for many months whether, or how, the state school system would be funded beginning with the 1994 school year.

A July 30, 1993 article in The Washington Post described some of the problems which have been created for state and local governments by unfunded federal mandates. California, for example, was forced to reduce funding for primary and secondary public education by 15.6 percent.

According to reports recently issued by organizations of state and local governments, unfunded federal mandates or, more generally, actions of the federal government to push costs downward to the states, are the number one problem for state and local officials. [See The State of America's Cities, January 1994, published by The National League of Cities; The Fiscal Survey of the States, October 1993, published by the National Governor's Association and the National Association of State Budget Officers.]

Largely because of federal cost shifting, thirty-two states increased tuition for higher education. Twelve states imposed new Medicaid restrictions. Maryland, Montana, Nevada, Ohio, and South Carolina had budget cuts which exceeded three percent of their fiscal 1993 general fund expenditures.

Mandatory Medicare would only worsen the situation for state and local governments. (See attached Table B for a state-by-state cost analysis.) For example, California would have a first year cost of almost $250 million. Texas, Illinois, Ohio, Louisiana and Massachusetts would also face substantial burdens.

IV. Mandatory Medicare can not be justified on the theory that it would benefit the affected employees.

Some have argued that public employees would actually benefit by receiving Medicare coverage. The response to this concern is simple: if public employees wanted Medicare coverage, they would be asking for it. Since passage of COBRA, local jurisdictions have had the option of joining the Medicare system without also participating in the Social Security system. In short, if Medicare coverage were desirable, employees would certainly bring pressure to bear upon their employers (which are, after all, elected governments) to adopt it. In fact, the opposite is true; far from clamoring for Medicare coverage, public employee groups are vehemently opposed to efforts to impose these programs upon them.

They do not need the federal government to provide these programs "for their own good."

V. Mandatory Medicare coverage of the employees who were "grandfathered" outside the system by COBRA would create a variety of problems that were avoided by COBRA's compromise position.

Some state and local governments have health plans in place for their employees, including retirees. Adjustment of these plans to take care of Medicare coverage for existing employees would create an overwhelming task, or would result in the abandonment of these plans. While the phase-in provision adopted in COBRA affects the health benefits and take home pay of individuals at the time they commence employment, mandatory Medicare for all employees would displace benefit programs that individuals have enjoyed, in some cases, for many years, and would reduce the amount of take home pay they have come to expect. Abandonment of the careful compromise adopted in COBRA would unfairly disappoint the expectations of millions of public workers.

For all of these reasons, mandatory Medicare coverage of all state and local government employees should be squarely rejected.

Thank you for allowing me the opportunity to present the views of OPPOSE.

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